THE BOOTS COMPANY

Report and Accounts

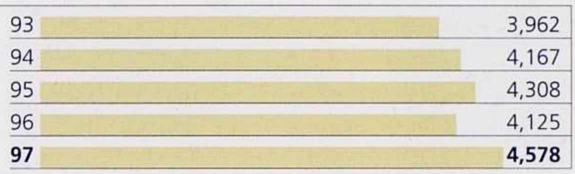
for the year ended 31st March 1997

The Boots Company embraces businesses operating principally in retailing, the manufacture and marketing of health and personal care products throughout the world and the development and management of retail property.

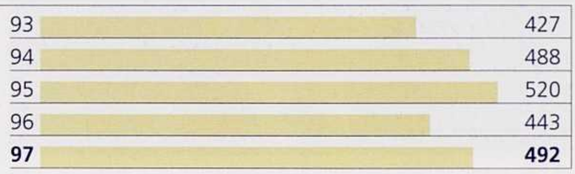
Our objective is to maximise the value of the company for the benefit of its shareholders. We will do so by investing in our businesses to generate strong cash flows and superior long term returns.

While vigorously pursuing our commercial interests, we will, at all times, seek to enhance our reputation as a well managed, ethical and socially responsible company.

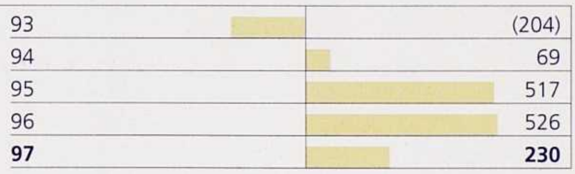
Turnover £m
Turnover increased by 11.0% to £4,578.0 million
Turnover from continuing operations increased by 13.8%



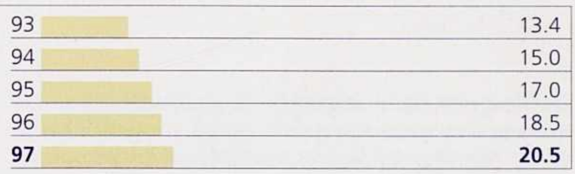
Operating profit before exceptional items £m
Operating profit before exceptional items increased by 11.1% to £491.8 million
Profit before tax and exceptional items was £536.2 million



Net (debt)/funds £m



Distributions to shareholders
Dividend per share pence (excluding special dividend)
Increased by 10.8% to 20.5 pence



Share repurchases and special dividend
1995 – The company purchased 9.2% of its share capital at a cost of £511.3 million.
1997 – The company purchased 5.4% of its share capital at a cost of £300 million and declared a special interim dividend of £400.5 million (44.2 pence per share)

Boots goes from strength to strength. In a very active year we made good progress on a wide number of fronts, continued to broaden the scope of the business, and significantly increased sales, profits and earnings per share. More importantly total shareholder return over the last five years has averaged 11.8 per cent compound return per annum.

Dividend The board has proposed a final dividend of 14.3p. This is in addition to the declared special interim dividend of 44.2p and brings the total dividend for the year to 64.7p per share. The special dividend has had no influence on the size of the proposed final dividend. The first interim and proposed final together amount to 20.5p per share, an increase of 10.8 per cent over last year. The pro forma ratio of debt to equity based on the 31st March 1997 group balance sheet is 10.5 per cent.

Strategy We maintain a high level of investment in growing and extending our core businesses, and in increasing their efficiency and competitiveness. Boots The Chemists (BTC) is still demonstrating that there is room for growth in the UK through judicious choice of store formats, and has begun a carefully planned international expansion. Halfords and A G Stanley are both shifting their emphasis from high streets to larger, out of town sites, and Boots Opticians continues to expand. All these businesses are benefiting from continued development of own brand and exclusive ranges. Boots Healthcare International (BHI) and Boots Contract Manufacturing (BCM) are extending their presence overseas, both organically and by acquisition.

Healthcare is at the heart of several of our businesses, so the new Labour government and its plans for the NHS have a significant bearing on the company. We believe the role pharmacies play in the community is one of the pillars of the NHS, and we strongly support policies which will enhance that role.

Acquisitions and disposals In May 1996 we completed the sale of Childrens World to Storehouse for £62.5 million. We judged that we could realise greater value for shareholders by selling the business rather than continuing to invest in it, and, after provision for disposal and other termination costs, the sale adds an exceptional profit of £15 million to this year's accounts.

In June we announced the acquisition of W H Smith's 50 per cent share of Do It All. This included a £50 million contribution from W H Smith which has helped to accelerate the disposal of the 65 stores that Do It All did not wish to keep. We are already having considerable success in turning the business around.

During the year we made two European acquisitions to give BHI a strong platform for international expansion in skincare: Laboratoires Lutsia in France for £115 million, and Farmila Dermical in Italy for £4.1 million.

BCM has also increased its presence in Europe, buying Roval, one of France's leading suppliers of own brand toiletries, for £15.2 million in March 1997.

In the same month we announced an agreement with BASF that largely completes the transfer of products resulting from BASF's purchase of Boots Pharmaceuticals in 1995. This gives us control of key healthcare products in India, Pakistan and Canada and allows us to close manufacturing operations in Australia and South Africa.

The Millennium We fully recognise the importance of putting in place the business systems for this event. We estimate that some 300 man years of effort are required to amend or update our systems across the group. We believe this may be less than for some comparable organisations since we have a progressive plan of systems enhancement and replacement and therefore have been working on the programme for some considerable time.

Preparation for the Millennium is not, however, simply an information technology issue. We have designated managers in each of our businesses to handle this, in close co-operation with our suppliers of products and services. Obviously we seek to ensure that our normal business operations are not disrupted as systems changes are made.

European Monetary Union This is a serious issue for retailers, who will be at the front line in managing the transition for consumers if and when it comes. We are acutely conscious of the potential impact and we have a team examining the implications for our business. The scale of cost for all retailers would be considerably greater than that relating to the Millennium.

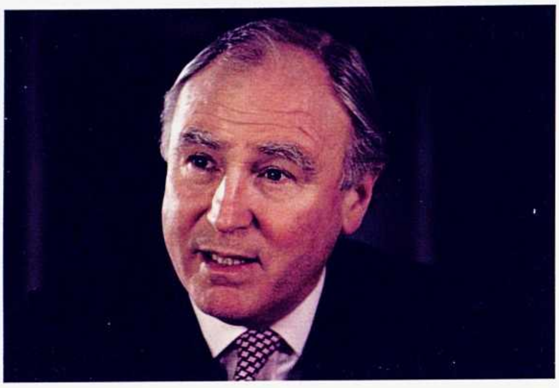
People This year we have made the first in a series of planned changes to the board, which will maintain effective control as the business develops. David Thompson, group finance director, and Steve Russell, managing director of BTC, have been appointed to the newly created posts of joint group managing director. Both retain their existing responsibilities and Steve Russell takes on additional responsibility for international retail development. Subject to my reappointment as a director at the annual general meeting, I will extend my term of office for a further year until July 1998. Lord Blyth will then become executive chairman and I will become deputy chairman.

Brian Whalan, a group executive director and managing director of Halfords, will be taking early retirement for personal reasons after the annual general meeting. Brian has made a significant contribution to the company's fortunes, leading many initiatives and running several important businesses. We are grateful for all he has done and wish him a long and happy retirement.

Our ability to go on creating value, year on year, depends on our people: on their understanding of value creation and their commitment to it, on their ideas and initiatives, and on the energy they devote to Boots success. The board and I thank them for their achievements.

In March this year we were honoured to welcome Her Majesty The Queen to our main Nottingham site, where she officially opened BHI's refurbished head office and laid the foundation stone for BTC's head office extension. The BTC building, now over 30 years old, is still an exemplary open plan working environment. In 1996 it became the fourth listed building on the site – further recognition of Boots long-standing commitment to good architecture and design, and improving working conditions for our people.

Sir Michael Angus
Chairman



Group sales from continuing businesses increased by 13.8 per cent to £4,565.1 million, and profit before tax and exceptional items was £536.2 million. This was another very good year, in a UK retail market where consumer confidence was slowly reviving but competition remained tough.

Own brand products are playing an increasingly important part in virtually all our operations – not only improving margins but also giving us greater differentiation and a competitive edge in the marketplace. Boots The Chemists (BTC) has a particular advantage through its vertical integration with Boots Contract Manufacturing (BCM), which enables it to exploit market opportunities adroitly. Halfords growing range of own brand products is significantly increasing profitability, and Boots Opticians innovative own brand ranges provide real strength in a very competitive market.

Our sales growth has been aided by continued investment in new stores. BTC opened 26 new small stores, four large stores and five edge of town stores. We also opened 28 edge of town Halfords stores and 13 new Boots Opticians.

Cash flow Operating cash flow amounted to £515.1 million, a decline of £21.4 million from last year. Boots Healthcare International (BHI) and BCM expanded overseas with acquisitions totalling £134.3 million. The disposal of Childrens World together with a final sum from the sale of Boots Pharmaceuticals contributed £135.5 million. Investment in capital expenditure totalled £222.8 million in line with last year. In June 1996, the company's second share repurchase was undertaken, returning £300 million to shareholders. Net funds at 31st March 1997 were £229.5 million.

Businesses BTC continued to make very good progress, increasing sales by 6.6 per cent and operating profit by 10.8 per cent to £426.5 million. Its greater focus on the core health and beauty areas is delivering some outstanding results – particularly in cosmetics, where sales grew almost 20 per cent. The Boots Advantage Card has had highly successful trials in Norwich and Plymouth and we have decided to introduce it nationally. There will be a substantial short term revenue cost, but we will gain an excellent customer database which will give us a lasting competitive advantage.

Halfords significantly improved margins, largely through an increased proportion of own brand sales, and managed a 21.3 per cent increase in operating profit to £26.8 million on a sales increase of 5.7 per cent. The garage servicing business again reduced its losses and is moving towards breakeven trading.

Boots Opticians again performed well, increasing sales by 11.9 per cent and operating profit before exceptionals by 26.6 per cent to £13.8 million. This continued progress is due in large measure to flair and innovation in the development of its own brand ranges.

Our DIY and home decorating businesses, while both still suffering from market overcapacity, are steadily improving. Do It All cut its losses by virtually two-thirds to £6.9 million, with sales up 6.6 per cent on a like for like basis, and succeeded in disposing of 27 underperforming stores during the year. A G Stanley's losses reduced only marginally to £11.8 million, but a substantial proportion of this amount was accounted for by rationalisation costs. It closed a further 35 unprofitable stores in its continuing shift from high streets to large out of town units – where sales increased over 12 per cent during the year.

BCM increased sales by 8.4 per cent and profits before exceptional charges by 26.9 per cent to £21.2 million. While it remains a vital strategic asset to both BTC and BHI, it now also has a substantial third-party business in Europe.

We continue to invest heavily in BHI, a rapidly expanding business. Although sales grew 21.0 per cent, at comparable exchange rates, to £243.4 million during the year, the cost of investment in further growth resulted in a small loss of £6.6 million before exceptionals. This result masks another excellent performance, and we intend to continue reinvesting in this business to maintain its expansion into new territories and line extensions. BHI's acquisition of two European skincare companies will enable it to grow its international over the counter business in pharmacy skincare.

Boots Properties increased its trading profit to £72.1 million on virtually unchanged sales. The business has begun selling some properties – raising an exceptional profit of £14.4 million – as the current stage of the market cycle makes it advantageous to sell rather than hold. Its strategy is to take appropriate advantage of each stage in the market cycle, exploiting the excellent market intelligence it gains from its role as landlord to our retailing businesses.

Extending the Boots franchise We intend to pursue international retailing opportunities more aggressively over the next few years. BTC opened two successful stores in the Republic of Ireland during the year and intends to develop a chain there. This year we will open test BTC stores in The Netherlands and Thailand. In the UK, BTC is exploring opportunities to add value and differentiate itself further from the competition.

Outlook The themes of this report – investment, growth and expansion – indicate the confidence with which the company is moving forward. We are actively seeking new opportunities and setting 'stretch' targets for our businesses, challenging them to innovate and test their capabilities to the utmost. As a business, Boots is still far from mature: indeed, we are constantly delighted to find how much more we can do.

Lord Blyth of Rowington
Deputy Chairman and Chief Executive

Shareholder returns of The Boots Company compared with peer companies

Returns are calculated using average share prices over the three months to 31st March

Five years to 31st March 1997		%
1	SmithKline Beecham	112.2
2	GUS	109.8
3	Marks & Spencer	80.1
4	Boots	74.6
5	Tesco	63.1
6	Kingfisher	53.9
7	Smith & Nephew	46.7
8	Reckitt & Colman	30.0
9	W H Smith	19.4
10	Sears	9.6
11	J Sainsbury	8.9

Performance measurement We believe that the best overall measure of group performance is total return to shareholders which equates to gross dividends paid plus the movement in the share price. We monitor our performance on a rolling five year basis against ten peer companies, the results of which are shown in the table above.

During the year our share price rose from 599p at the start of the year to 675p on 31st March 1997, giving a market capitalisation of £6.1 billion. The share price ranged from a high of 701p to a low of 555p.

Sales and operating profits from continuing operations before exceptional items increased in the year by 13.8 per cent and 10.7 per cent respectively.

Basic earnings per share (EPS) increased from 35.8p to 42.9p. After adjusting for exceptional items EPS rose from 34.7p to 39.5p. The board has proposed a final dividend of 14.3p. This is in addition to the declared special second interim dividend of 44.2p and brings the total dividend for the year to 64.7p per share. The special dividend has had no influence on the size of the proposed final dividend. The first interim and proposed final together amount to 20.5p per share, an increase of 10.8 per cent over last year.

Cash flow Cash management is one of the key performance measures used by the company to monitor its businesses. The maximisation of cash flow is the key factor in value creation. Free cash flow is defined as the cash flow available to all the providers of capital. The summary of cash flows shown below demonstrates the company's ability consistently to generate a healthy free cash flow.

Summary of cash flows	**1997 £m**	1996 £m
Operating cash flow before exceptional cash flows	**539.9**	523.7
Exceptional operating cash flows	**(24.8)**	12.8
Acquisition of businesses	**(170.3)**	(41.7)
Disposal of businesses	**129.9**	(6.7)
Purchase of fixed assets	**(222.8)**	(225.1)
Disposal of fixed assets	**53.9**	27.8
Taxation paid	**(174.4)**	(152.7)
Other items	**7.1**	9.1
Free cash flow	**138.5**	147.2
Share repurchase	**(300.0)**	–
Dividends paid	**(169.8)**	(154.4)
Net interest	**39.1**	16.2
Net cash flow (page 53)	**(292.2)**	9.0

The group generated cash from operating activities of £539.9 million, an increase of £16.2 million on last year. This figure was adversely affected by £39.8 million due to a change in the law requiring the group to bring forward the payment of VAT.

The exceptional cash flows are analysed in note 22 to the financial statements and include

Free cash flow £m
Includes the sale of Boots Pharmaceuticals in 1994/95

92/93	290.4
93/94	337.4
94/95	1,161.9
95/96	147.2
96/97	138.5

Payment to shareholders £m
1992/93 includes a second interim dividend rather than payment of a final dividend in 1993/94. £511.3 million share repurchase in 1994/95, £300 million in 1996/97

92/93	215.1
93/94	47.6
94/95	663.4
95/96	154.4
96/97	469.8

expenditure on terminating onerous contracts at Do It All of £35.1 million. These relate mainly to property lease commitments.

Investment in fixed assets was at a similar level to last year. The fixed asset disposal proceeds relate mainly to the sale of non-core properties.

The above graph on free cash flow shows the amounts generated by the group for each of the last five years.

Acquisitions and disposals of businesses Boots Healthcare International increased its presence in the European skincare market with the acquisition of Laboratoires Lutsia in France and Farmila Dermical in Italy for a total of £119.1 million.

Boots Contract Manufacturing also expanded in Europe with the acquisition of Roval, the leading supplier of own brand toiletries in France, for £15.2 million.

The proceeds received in the year related to the sale of Childrens World in May 1996 and the final receipt from the sale of Boots Pharmaceuticals which took place in March 1995.

Interest Net interest receivable for 1996/97 was £44.4 million compared with £50.9 million last year. The main reasons for the decrease are the effects of the share repurchase and the acquisition of businesses offset by proceeds on disposal of businesses.

Given the cash, borrowing and interest rate swap position of the group, each one per cent average increase or decrease in short term interest rates increases or decreases net interest payable by about £8 million.

Liquidity and funding At 31st March 1997 net funds were £229.5 million compared with £526.2 million at the start of the year.

The US$175 million bond, raised in 1990, was repaid during the year. It was replaced by a £150 million fixed rate amortising financing, £95 million of which was swapped into a floating rate of interest.

Other short term financing needs are met by commercial paper and short term bank borrowings.

The profile of the group's borrowings gives maturities of two to five years for 45 per cent and more than five years for 40 per cent.

Capital structure The group has undertaken a number of transactions to help achieve a more efficient capital structure, in line with the policy of delivering shareholder value. It is sensible for companies to finance a proportion of their capital requirements with borrowings, and this is especially so when the business consistently produces strong cash flows.

A £300 million share repurchase was implemented in June 1996, bringing the aggregate amount for these transactions over the last three years to some £811 million. They have proved to be a good investment for remaining shareholders, as the share price and dividends have risen subsequently.

Payments to shareholders in the form of dividends and share repurchases over the last five years are shown above.

Following the tax changes introduced last year relating to share repurchases, the board believes that a special dividend is now a better way of creating a more efficient capital structure and delivering more value. All shareholders on the register on 4th June 1997 will receive the tax credits of 11.05p per share which accompany this dividend. These tax credits, for which clearance has been received from the Inland Revenue, will amount to £100.1 million.

In deciding the amount of the special dividend, the board has taken account of the strength of the company's balance sheet, projected future cash flows and capital investment plans. The pro forma ratio of debt to equity based on the 31st March 1997 group balance sheet is 10.5%.

The special dividend payment has had no influence on the size or timing of the final dividend for the year to 31st March 1997, which is being recommended by the directors and considered at the annual general meeting in July, nor will it influence the size of future dividends.

The special dividend, together with the proposed final dividend, other normal dividend payments and the two past share repurchases, will bring the total amount of cash returned to shareholders over the past three years to more than £1.7 billion.

Treasury control policy We have clear principles covering all major aspects of treasury policy. These aim to benefit long term shareholders. Strict guidelines for cash investments apply worldwide, and investments are made only in high quality bank deposits and other liquid instruments.

Controls are in place which seek to prevent fraud and other unauthorised transactions and minimise counterparty risk. There are regular reviews by the group's internal audit staff.

Interest rate policy We continue to believe that hedging the impact of short term movements in interest rates does not increase the worth of the company and that long term shareholders do not ascribe value to the reduction in earnings volatility resulting from such hedging.

In common with other UK retailers, the group has significant liabilities through its obligations to pay rents under property leases, the implicit interest rate on which can be considered to be fixed.

Some years ago the board adopted a strategy of regular long term interest rate swaps in order to change the balance between fixed and floating rate debt. This activity is strictly controlled and monitored, each swap being authorised by the group finance director.

At the year end the total volume of interest rate swaps on leases was £675 million, with £325 million being undertaken during this year. All of these swaps were done with a maturity of ten years to match the long term nature of the underlying property leases. Further details are given in note 18 on page 68.

Currency exposure policy Modest sales and purchases are made in a range of currencies, but it is not considered that hedging them into sterling adds value.

Taxation The effective tax rate for the group was 31.2 per cent. The main reason for the reduction from the UK standard rate of 33 per cent is the level of capital gains in the year which can either be set against capital losses or rolled over for future capital expenditure.

Pensions The next actuarial valuation of the principal UK pension scheme will be completed as at 1st April 1998. Following the previous valuation there is no requirement for the company to contribute to the scheme although a charge of £4 million has been taken in the year.

Accounting Standards The company fully supports the objectives of the Accounting Standards Board (ASB) in its aim to improve the quality and consistency of financial statements. Over the past twelve months we have commented on ASB pronouncements relevant to our business and we will continue to do so in the future. We are concerned where International Standards depart significantly from UK practice and support the ASB in trying to influence proposed changes on major issues affecting UK practice.

Going concern After making enquiries the directors have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing these financial statements.

David Thompson
Joint Group Managing Director
and Finance Director







Sir Michael Angus, Chairman. Sir Michael, 67, became a director in March 1994. Previously chairman of Unilever plc, he is now chairman of Whitbread PLC, deputy chairman of British Airways Plc and a director of National Westminster Bank Plc. He was president of the Confederation of British Industry from May 1992 until May 1994.

Lord Blyth of Rowington, Deputy Chairman and Chief Executive. Lord Blyth, 57, joined the company and the board in October 1987 as chief executive, after previous appointments as group managing director of The Plessey Company and head of defence sales at the Ministry of Defence.

D A R Thompson, Joint Group Managing Director and Finance Director. David Thompson, 54, joined the company in 1966 and became finance director on his board appointment in July 1990. He was appointed joint group managing director in March 1997. His career with the company has included appointments as Retail Division finance director in 1980 and group financial controller in 1989. He is a chartered accountant.

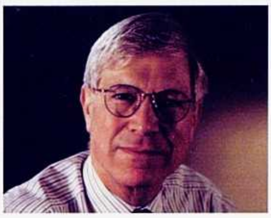
S G Russell, Joint Group Managing Director and Managing Director, Boots The Chemists (BTC). Steve Russell, 52, joined the company in 1967 and became a director in 1995. He became director of merchandise of BTC in 1988. In 1992 he was appointed managing director of Do It All, subsequently rejoining BTC and becoming managing director in 1995. He was appointed joint group managing director in March 1997.

B E Whalan, Managing Director, Halfords. Brian Whalan, 52, joined the company in 1967 and became a director in 1995. He became director of home and leisure merchandise for Boots The Chemists in 1983, managing director of Boots Opticians in 1987, and managing director of Halfords in 1990.

J J H Watson, Managing Director, Boots Contract Manufacturing. John Watson, 55, joined the company in 1967 and became a director in 1996. Following his appointment to a number of positions in engineering, production and personnel he was appointed director of personnel, Pharmaceuticals Division in 1987. He took up his present position in July 1991. He is also chairman of Boots Pensions Limited.

M F Ruddell, Personnel Director. Mike Ruddell, 53, joined the company in 1966. He became a director in 1984, with responsibility for marketing and merchandise within Boots The Chemists. He was managing director of Boots Properties from 1989 until he took up his present position in August 1996. He is a non-executive director of Community Hospitals Group and deputy chairman of The Nottingham Trent University.





***Sir Peter Davis.** Sir Peter, 55, became a director in May 1991. He is group chief executive of the Prudential Corporation plc and was formerly chairman of Reed International plc. He spent ten years at J Sainsbury plc where he became assistant managing director with responsibility for buying and marketing operations. He is Chairman of Business in the Community.

***F M Harrison.** Fiona Harrison, 46, became a director in 1994. She is a director of Coats Viyella PLC and chief executive of its Fashion Retail Division which operates the Jaeger and Viyella retail chains. She was previously vice-president Clairol Inc. – part of the Bristol-Myers Squibb Company.

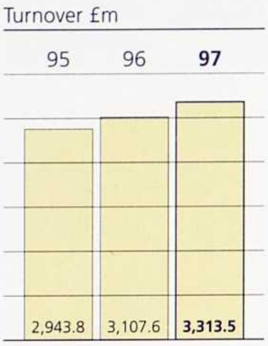
***Sir Clive Whitmore,** GCB, CVO. Sir Clive, 62, became a director in September 1994 after leaving the Civil Service where he was the permanent secretary, first of the Ministry of Defence and then of the Home Office. He is a non-executive director of the Morgan Crucible Company PLC, Racal Electronics PLC and N.M. Rothschild & Sons Limited.

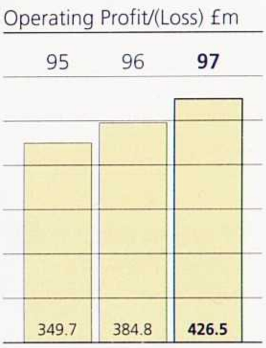
***R P Wilson.** Robert Wilson, 53, became a director in December 1991. He has been with Rio Tinto plc for over 25 years and became its chief executive in 1991, chief executive of RTZ-CRA following the merger of the two companies at the end of 1995 and chairman of Rio Tinto plc in 1997.

***Sir Peter Reynolds,** CBE. Sir Peter, 67, became a director in 1986. He is chairman of Pioneer Concrete Holdings and a director of Pioneer International, Avis Europe and Guardian Royal Exchange Assurance.

*Non-executive director

BOOTS THE CHEMISTS





Key facts

1258 total stores

1050 small stores

192 large stores

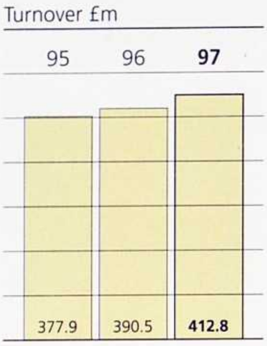
5 free-standing 'photo centres'

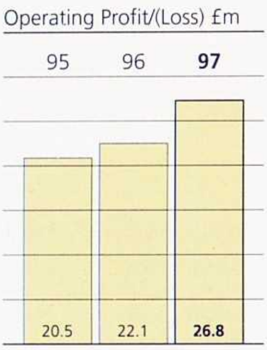
11 Health centres

54,535 employees

Boots The Chemists is market leader in many areas of its business including healthcare, cosmetics, toiletries, baby consumables, films and film processing.

HALFORDS





411 total stores

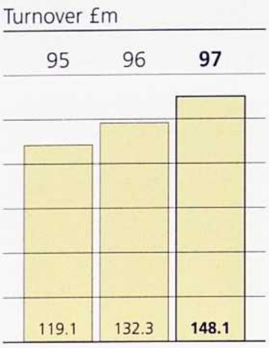
138 high street stores

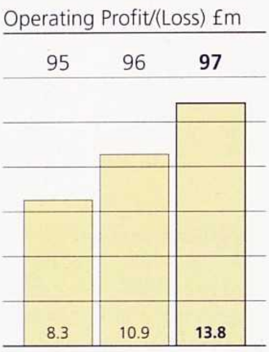
273 out of town superstores (with garages 135)

9,362 employees

The largest retailer of car parts, car accessories, cycles and cycle accessories in the UK. Halfords is also the largest garage servicing organisation in the country.

BOOTS OPTICIANS



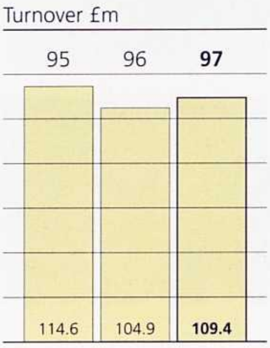


273 practices

3,943 employees

One of the largest chains of opticians in the UK. Boots own brand products account for 75% of all sales.

Homestyle



334 total stores

102 FADS

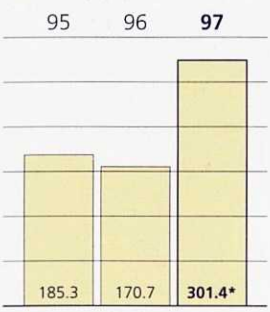
232 Homestyle

2,402 employees

The business is a leading retailer of home decorating materials through Homestyle and FADS The Decorating Specialists.

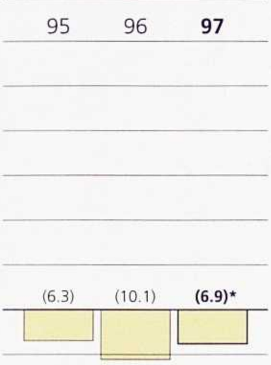
DO IT ALL

Turnover £m



*100% ownership from June 1996

Operating Profit/(Loss) £m



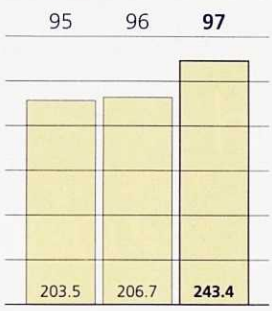
171 stores

5,278 employees

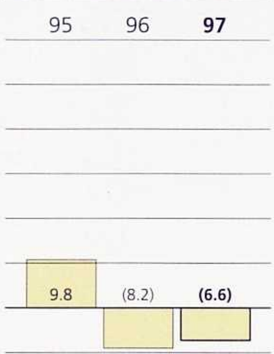
A DIY company now fully owned by The Boots Company

BOOTS HEALTHCARE INTERNATIONAL

Turnover £m



Operating Profit/(Loss) £m



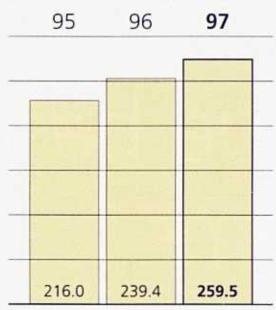
15 operating businesses around the world

1,836 employees

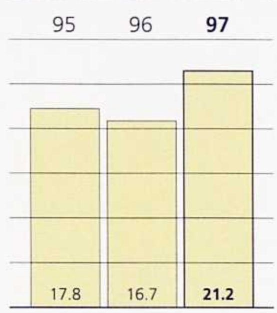
Responsible for the development and marketing of consumer healthcare products in the UK, Europe, Africa, the Indian sub-continent, South East Asia and Australasia. The product range includes Strepsils, Nurofen, Optrex, E45, Lutsine and Onagrine.

BOOTS CONTRACT MANUFACTURING

Turnover £m



Operating Profit/(Loss) £m



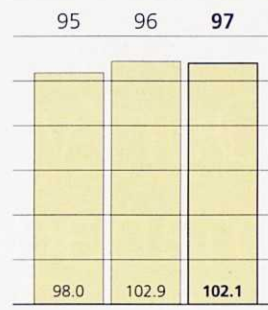
Five factories and one major development laboratory in the UK and three manufacturing businesses in Europe

3,993 employees

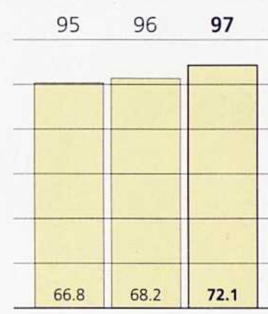
Develops and produces a wide range of own brand products for Boots The Chemists, consumer products for Boots Healthcare International, and numerous products under contract for other companies.

BOOTS PROPERTIES

Turnover £m



Operating Profit/(Loss) £m



936 UK properties

89 employees

Manages the group's freehold and long leasehold property portfolio. Its development activities are concentrated in the retail sector.

Our continued growth over recent years is the result of an unwavering focus on creating shareholder value.

Our 'value based management' approach influences decisions at all levels, enabling our people to gain the fullest benefit from our competitive advantages.

The statistics on the following pages indicate the scale and power of our businesses today: advantages on which we will continue to build as we go from strength to strength.

One in three people shop in Boots each week – and sales have grown 24 per cent since 1993.

Boots The Chemists Managing Director, Steve Russell	
Sales £m	3,313.5
Increase %	6.6
Profit £m	426.5
Increase %	10.8
Sales split	**%**
Healthcare	15.8
Dispensing	20.4
Beauty and personal care	39.8
Food and baby consumables	10.2
Gift	6.4
Photo and music	7.4

Boots The Chemists (BTC) had another good year. The impact of poor summer weather, which reduced suncare sales, was amply offset by good Christmas sales. With counter sales up 6.1 per cent and dispensing sales up 8.6 per cent, turnover grew 6.6 per cent overall. Gross margin increased by 0.3 percentage points and profits grew 10.8 per cent to £426.5 million.

Strategy BTC continues to improve performance by concentrating on three strategic objectives. First, it is differentiating its offer to consumers more sharply, focusing on beauty and healthcare and establishing Boots as the store to help customers look good and feel good. Secondly, it is continuing to expand its store portfolio in a variety of formats. Thirdly, it is seeking out profitable new growth initiatives, including new products and extensions of its activities in areas where the Boots name can add value.

People All BTC's business plans recognise that the availability of well motivated, trained, skilled and informed people throughout the business will be a critical factor in achieving these objectives. Programmes are already in place to ensure that the quality of BTC's people continues to be a major strength.

Store development In a very active year BTC opened 26 small stores, four large stores and five new edge of town stores. By the year-end BTC had opened 157 small stores in a planned 240 store expansion announced three years earlier. Recent research suggests that there is scope for even more than the total of 1,130 small stores currently envisaged. There are now eight large edge of town stores and these, too, have performed extremely well – generating customer traffic as destinations in their own right, without drawing business away from other Boots stores nearby. Other formats currently being tested include stores in hospitals – the first opened in Southampton in 1997 – and at motorway services – the first opened on the M6 north of Birmingham in 1997. A further four stores are planned at Heathrow Airport.

Refurbishments include an improvement programme for Central London stores. The appearance of larger stores, both new and refitted, is being significantly enhanced by extension of the space devoted to premium cosmetics: these are an increasingly important part of the product mix.

International expansion BTC's first store outside the UK in recent times opened in Dublin in November 1996 and has been an outstanding success. A second store in the Republic of Ireland opened by the year end.

Preparations continue for wider overseas expansion, and the first Boots stores in The Netherlands and Thailand open in June 1997.

New products Constant product innovation is part of a customer offer that integrates quality products, retail environments, service and advice. The relaunched No7 cosmetics range goes from strength to strength. Botanics was launched in 1995 with a skincare range – sales of which doubled in 1996/97 – and has grown into a £5 million brand embracing haircare, bath and bodycare and deodorants. Botanics for Men follows in 1997.

Among a total of almost 500 new own brand products launched during the year, the most successful healthcare introductions included condoms, daily vitamins and minerals, aromatherapy oils and herbal creams. New Boots branded dispensing medicines brought the total of Boots prescription generics to over 100.

Service Sales and administration tasks are being separated in stores, so that trained staff with sales skills are free to concentrate on customer service and selling. In larger stores BTC is achieving substantial sales increases by increasing the availability of specialists in areas such as skincare and dietary supplements where customers want personal advice.

Pharmacy Prescriptions dispensed grew 2.7 per cent in number and 8.6 per cent in value during the year, BTC maintaining its market share.

Boots believes that pharmacists have a major contribution to make in primary healthcare provision. BTC is working with professional bodies, the NHS and the Government to support the Royal Pharmaceutical Society's Pharmacy in a New Age initiative and help enhance the profession's consultative role.

BTC's Living with Asthma service is an excellent example of how community pharmacy can contribute to the nation's healthcare. Launched in October 1996, it gives information and advice to asthmatics and their families through leaflets, newsletters, a video and a children's book – and through personal advice at the pharmacy.

BTC actively opposes the proposed abolition of resale price maintenance (RPM) on over the counter medicines. This would be likely to reduce the number of pharmacies remaining in business and so undermine the profession's advisory contribution to the community. However, if RPM is abolished the impact on Boots would be broadly neutral.

Beauty and personal care Sales grew 7.8 per cent overall. Cosmetics rose almost 19 per cent, led by a further significant increase in No7 sales and good growth in the 17 teenage range. The cool summer depressed suncare sales, but BTC remains the UK's leading suncare retailer and Soltan is now the No1 brand. A good year for fine fragrances was bolstered by an excellent Christmas: in the three days of Christmas week, stores took an average week's sales every 2½ hours. Dental care is another strong growth market, and BTC is increasing its market share by combining product innovation with expert advice.

Healthcare Sales grew 8.4 per cent overall, with considerable impetus coming from strong growth in vitamins and supplements. Efforts to make pharmacists more accessible are helping to attract customers seeking advice on minor ailments.

They also help to differentiate BTC from supermarkets. Boots is meeting growing demand for complementary medicine and alternative remedies through own brand products and a range of information leaflets.

Other merchandise areas Gift sales returned to modest growth. New edge of town stores saw well above average sales intensity in gifts. Strong promotion strengthened BTC's market leadership in photo processing and the launch of the Advanced Photographic System helped raise camera sales by over 14 per cent. Food sales were boosted by an extended Shapers diet range, growing awareness of Boots as a retailer of lunchtime products and a unique new own brand range of sports nutrition foods and drinks.

Systems development BTC continues to apply technology to improve profitability and control. The first stage in a new generation of decision support systems has been implemented and the Sunrise in-store information, communication, training and staff planning system is now operating in over 800 stores. Installation will be complete throughout the business in 1998.

Information technology is also giving BTC a deeper insight into customers' shopping habits. The Advantage customer card, a smart card capable of carrying substantial amounts of data, has proved an extremely valuable source of information which will lead to new products, different positioning and display of products, and accurately targeted promotions. It has been well received in trials in East Anglia and the South West involving some 200,000 cardholders, and BTC has taken the decision to introduce it nationally. Further details will be announced later this year.

Some two million customers use Boots The Chemists Medilink card every month.

Halfords Managing Director, Brian Whalan	
Sales £m	412.8
Increase %	5.7
Profit £m	26.8
Increase %	21.3
Sales split	**%**
Cycles and cycle accessories	27
Car parts	16
Auto accessories, tools and audio	47
Garage servicing	10

Halfords achieved a 21.3 per cent profit increase despite difficult trading conditions. Sales growth of 2.4 per cent in existing stores plus sales through new stores gave an overall increase of 5.7 per cent. Margins increased strongly, notably through a substantial increase in own brand sales.

Strategy Halfords has no direct competitor. It aims to expand aggressively, repositioning itself from high streets to superstores to meet consumers' preference for wide choice and their view of Halfords as a destination store. Consumer confidence in Halfords provides great potential for own brand products, which the business is exploiting with growing success: own brand products accounted for 42 per cent of sales in 1996/97, up from 35 per cent in 1995/96.

Own brands This strong growth was driven by the continuing expansion of Halfords car parts range, and a new range of own brand motor oils. Over 1,300 parts introduced during the year included filters, brake pads and discs, and batteries. The aim has been to achieve equivalent quality to original equipment or leading brands, at value for money prices. Customers' response – typically a rapid 60-80 per cent switch to the Halfords product, even for safety-critical parts such as brake pads – demonstrates their confidence in Halfords.

The relaunch of Halfords motor oils was an important success. The award-winning, patented packaging provides easier pouring with less spillage, and clear labelling has helped customers choose the right – often higher-grade – oil for their car.

Store openings The pace of openings increased during the year: 28 new superstores were opened and 20 high streets closed. This broad pattern of development will continue over the next few years.

Retail sales Cycle sales were flat, in a year when the UK market fell seven per cent. Car parts and accessories benefited from own brand launches, including new products in mechanical security and body care. Growth continued to be stronger in superstores than in high street stores.

Garage business Servicing sales rose 9.5 per cent and losses fell from £6.5 million to £5.0 million. With the cost base stable, growing sales will continue to move the business towards breakeven. The sales support agreement with Daewoo is working well and a further 20 showrooms are planned in Halfords superstores.

Distribution Re-engineering of the Redditch warehouse has added 75 per cent more throughput capacity.

Halfords sells more bikes than anyone in the UK, with over 30 per cent market share.

Boots Opticians Managing Director, Martin Bryant	
Sales £m	148.1
Increase %	11.9
Profit £m (before exceptionals)	13.8
Increase %	26.6
Sales split	**%**
Spectacles	69
Contact lenses	14
Other	17

Boots Opticians (BOL) marked its tenth anniversary with another good year. Sales rose 11.9 per cent and profit advanced 26.6 per cent to £13.8 million before exceptional items. In both cases the continued development of own brand products was a major factor. Court rulings against HM Customs & Excise resulted in a further exceptional addition to profits of £12.7 million due to refunds of VAT.

Strategy BOL aims to become market leader in optical retailing, making effective use of Boots strong brand and product development skills to build a value adding business. Branches in Boots The Chemists stores complement BTC's healthcare image and enable more productive use to be made of floor space.

Sales performance Competition intensified further as major multiples pursued aggressive expansion programmes and increased advertising by an estimated 30 per cent. BOL continued to differentiate itself through characteristics that consumers associate with Boots: quality, professionalism, product innovation and value – and again increased market share.

Capital investment BOL's practice refit programme tailors each practice to its local market in displays, ambience and technology. As well as meeting customer needs, this helps control investment costs and ensures realistic breakeven points. During the year 47 reconfigured practices, including 13 new ones, brought the total of refitted sites to 195 out of 273. The refit programme will be completed over the next two years. Two new practices are trial units in out of town BTC superstores, and one in London's Regent Street marked the start of a planned expansion into the capital.

New products New lenses and frames helped sustain own brand sales at 75 per cent of total turnover, while the success of Daily disposable contact lenses brought many new wearers into the market. Supported by substantial TV advertising, Daily contact lenses have built a significant market share since their launch in 1995. Boots Integra premium lenses, launched in 1993, further increased their share of lens sales, and the new Elite own brand range of fashion frames took a third of sales in this sector in only six months. The Boots Zero range, test marketed during the year for launch later in 1997, is unique in combining lightweight, multicoated polycarbonate lenses with rimless frames.

People There is an acute shortage of skilled staff, particularly optometrists. BOL has taken a leading position in the market by creating a professional-friendly culture with strong involvement in both undergraduate and continuing education, and a large and widely admired pre-registration programme.

In its first year, Boots Elite frame range took a third of all Boots Opticians premium frame sales.

A G Stanley Managing Director, Peter Roche	
Sales £m	109.4
Increase %	4.3
Loss £m	(11.8)
Decrease %	3.3
Sales split	**%**
Paint and wallcovering	73
Co-ordinated fabrics and decor products	27

A G Stanley (AGS) continued its rationalisation, closing 35 unprofitable high street stores and rolling out a successful refit and advertising trial to all the larger Homestyle stores. Sales grew 4.3 per cent overall, 7.2 per cent on a comparative basis, but the continuing trend of customer preference to shop for decorating materials out of town was evident in the sales increase for the out of town stores of 12.6 per cent against a high street increase of 3.2 per cent. Further improvement to the loss for the year, which reduced marginally from £12.2 million to £11.8 million, was restricted by rationalisation costs of £4.1 million including £2.4 million for store closures.

Strategy AGS continues to pursue a strategy of growing sales and profits in its existing out of town Homestyle stores where co-ordination delivers competitive advantage, while closing unprofitable stores in the high street.

A major TV advertising campaign aimed at increasing footfall in stores by improving awareness of the Homestyle brand name commenced during the year. This was supported by improved layouts in all out of town stores, rebalancing of space in high street stores, extensive product development and further investment in the training of store staff to improve customer service.

As part of a drive to reduce the central costs of the business, a fundamental review of head office processes and procedures was undertaken during the year.

Store development During the year the business closed 35 unprofitable stores and sublet or assigned eight vacant properties. In addition the costs for ten store closures contracted to occur during 1997/98 were charged in 1996/97. No new stores were opened. Further closures of unprofitable stores will continue in 1997/98.

Product development Major rationalisation of wallcoverings was implemented, highlighted by the introduction of a new own brand range called Colour Box. This led to a 1.3 percentage points increase in market share. 'Colour Palette' was the remerchandising exercise which co-ordinated soft and finishing touches products and led to the relaunch of Homestyle and FADS paint brands.

Systems development The implementation of a replacement EPOS system continued and was installed in 290 stores by the year end. A review of central processes and procedures was completed during the year leading to a reduction in staff of 60 people. Cost savings amounting to £2.0 million in a full year are in the process of being implemented. Continuing improvements in store systems and procedures, including a major new labour management system, generated savings of £1 million.

A G Stanley is one of the UK's leading retailers of wallcoverings, selling over 85,000 kilometres a year.

Do It All Managing Director, Ken Piggott	
Sales £m	254.6 subsidiary, 46.8 associate
Increase %	–
Loss £m	(6.2) subsidiary, (0.7) associate
Increase %	–
Sales split	**%**
Decorative	52
Workshop	48

Do It All's (DIA) performance improved significantly, with like for like sales up 6.6 per cent. Our share of losses during the year was £6.9 million. For the DIA total on-going business, losses reduced by virtually two thirds as DIA began to benefit from strategic investment in store refits, customer service and a new store EPOS system. Boots acquired W H Smith's share of the business in June 1996.

Strategy DIA's strategy is to match capacity closely to local demand, differentiate itself clearly from competitors and close stores in unprofitable locations. It remains a mainstream DIY business offering a full range of quality products and exceptional value – differentiated by exceptional strength in home decorating, supported by high levels of customer service and advice.

Store development Virtually all 133 on-going stores have been refitted in the new 'project focus' format, which groups products thematically around the principal projects that customers tend to undertake. Customer response has been very positive and the sales growth in refitted stores is over ten percentage points ahead of the rate in stores that have not been refitted. Reductions in the size of a number of larger stores helped to lift the sales intensity in the ongoing stores by over ten per cent.

27 stores were sold during the year, 25 of them after 14th June 1996 - the date on which Boots acquired W H Smith's share in the business. Since the year end sales of a further eight stores have been completed and a further ten are under contract. This leaves 22 stores identified for disposal.

Logistics DIA's Tamworth national distribution centre is now supplying over 75 per cent of sales centrally and will gain additional flexibility as the remaining store disposals are completed.

Merchandise and service Development of own brand and exclusive ranges continues. Successful own brand introductions during the year included the relaunched DIA paint range, unique woodwash and woodstain products, bathroom and shower accessories, garden furniture and barbecue ranges. Another important introduction was an exclusive range of kitchen units from Symphony.

The introduction of an attractively priced DIA 'Offer of the Month' has been effective in increasing customer numbers, and with the customer service team programme now fully implemented, DIA is earning a reputation for superior support and advice, particularly in decorating.

Prospects The substantial progress made in 1996/97 should continue through 1997/98, with the on-going stores becoming cash positive during the year.

Own brands now account for 17 per cent of Do It All sales and the business is progressively broadening its own brand range.

Boots Healthcare International			
Managing Director, Barry Clare			
Sales £m			243.4
Increase % (comparable exchange rates)			21.0
Loss £m (before exceptionals)			(6.6)
Sales split (comparable exchange rates)			
Major brand sales	**1997**	1996	% increase
Nurofen £m	44.4	35.6	24.7
Strepsils £m	56.4	46.5	21.3

Boots Healthcare International (BHI) sales at comparable exchange rates grew 21.0 per cent to £243.4 million, with like for like growth of 11.1 per cent. In a year of highly profitable operations, investment in marketing and new product development grew 15.9 per cent to a record £86.2 million, resulting in a small loss of £6.6 million. Exceptional costs amounted to £2.3 million, details of which are given in note 3 on page 59.

Strategy BHI develops and markets over the counter self-medication brands sold in more than 130 countries. BHI is building strong brands with significant long term value in three core areas – analgesics, upper respiratory and skincare. Alongside a major presence in Western Europe and Australasia, BHI is rapidly building its business in Eastern Europe and Asia, recognising that the greatest opportunities in these areas will go to those companies that establish themselves first and fast. BHI has established a regional marketing centre in Singapore to lead further business development in Asia, which has a considerable potential market.

Acquisitions In September 1996 BHI acquired Laboratoires Lutsia for £115 million. This French specialist in therapeutic skincare, will become BHI's platform for international expansion in skincare, creating new opportunities for existing product ranges such as E45, the UK market leader. To accelerate this process in Italy, BHI also bought the Farmila Dermical skincare range, for £4.1 million.

Structure A new agreement with BASF, announced in March 1997, finalised the transfer of products resulting from BASF's purchase of Boots Pharmaceuticals in March 1995. BHI takes control of Strepsils in India, Pakistan and Canada, Sweetex in India and Pakistan and Optrex in Canada. BASF takes control of a variety of prescription products in Australia, New Zealand and South Africa. The move will take BHI's concentration on its three core areas to some 70 per cent of sales and will help maximise the worldwide potential of Strepsils – already a leading brand.

Products BHI's refurbished head office, opened by Her Majesty The Queen in March 1997, provides greatly enhanced product development facilities that will shorten the time needed to gain new product registrations. Over 20 product launches during the year included Strepsils Antiseptic Spray in the UK, France and Spain, Nurofen in France and Russia, Nurofen Cold & Flu in the Czech Republic and Spain and the rollout of Strepsils across Central Europe.

BHI sells over a billion Strepsils a year throughout the world – almost 2,000 a minute.

Boots Contract Manufacturing	
Managing Director, John Watson	
Sales £m	259.5
Increase %	8.4
Profit £m (before exceptionals)	21.2
Increase %	26.9
Sales split	**%**
Boots The Chemists	50
Boots Healthcare International	17
Third party	33

Boots Contract Manufacturing (BCM) continued to increase sales, which rose 8.4 per cent to £259.5 million. Substantial cost reductions, particularly on raw materials, contributed to improved margins and a 26.9 per cent profit increase to a record £21.2 million, before exceptionals. Exceptional costs of £1.8 million relate to withdrawal from soap manufacture and restructuring.

Strategy BCM is building on its European leadership in supplying private label and contract manufactured cosmetics, toiletries and healthcare products. As well as supporting Boots The Chemists (BTC) and Boots Healthcare International (BHI) it is building long term relationships with major European and multinational companies, based on quality, customer service and expertise in market-led product development.

Sales Total sales benefited from the full year impact of sales from the French and German companies acquired from Croda International in December 1995. The underlying growth of five per cent was driven by sales to BHI and third parties; sales to BTC fell slightly because of substantial destocking. This pattern is likely to continue in 1997 as further joint supply chain initiatives with BTC and BHI reduce stockholding throughout the group.

Sales to BTC represented 50 per cent of the total, down from 62 per cent five years ago. The principal growth areas were cosmetics.

Sales to BHI grew 32 per cent, benefiting from strong UK and export demand. Third party sales excluding overseas companies, grew by 16 per cent, led by excellent growth in sales to UK retailers. Sales to overseas retailers were boosted by successes in Spain. The Netherlands and Portugal, and sales to major brand owners also increased significantly.

Acquisitions In March 1997 BCM acquired Roval, one of France's leading suppliers of own brand toiletries, together with its growing operations in Spain, for £15.2 million. It complements BCM's existing French and German businesses, giving access to customers, a distribution network, local market expertise and manufacturing capacity. BCM is now the leading private label toiletries supplier in France – Europe's second largest market – Spain and Portugal.

Capital investment Capital spending to increase production capacity and efficiency continued at a high level, with record expenditure of £30.6 million. The largest project was the £19 million energy centre serving Boots main Nottingham site, which was formally opened in March 1997. Others included further bottle blowing capacity, a new Strepsils blister packing line, some new machines and packing lines – as well as a substantial investment in information systems.

BCM produces over 4,000 different products and manufactures over 420 million units a year.

Boots Properties Managing Director, Peter Baguley	
Sales £m	102.1
Increase %	–
Profit £m	72.1
Increase %	5.7
Boots Properties store portfolio	
Single units	887
Multi-tenanted properties finished and in progress	49

Boots Properties – the group's second largest profit generator – increased trading profit by 5.7 per cent to £72.1 million, on sales virtually unchanged at £102.1 million. These results reflect the absence of development sales during the year, largely offset by increases in rental income.

Strategy Boots Properties owns and manages freeholds and long leaseholds on over 900 of the group's stores. It also applies its property development and management skills in the wider retail property market. As well as giving Boots retail businesses readier access to the locations they seek, it aims to create value for shareholders through sound investment.

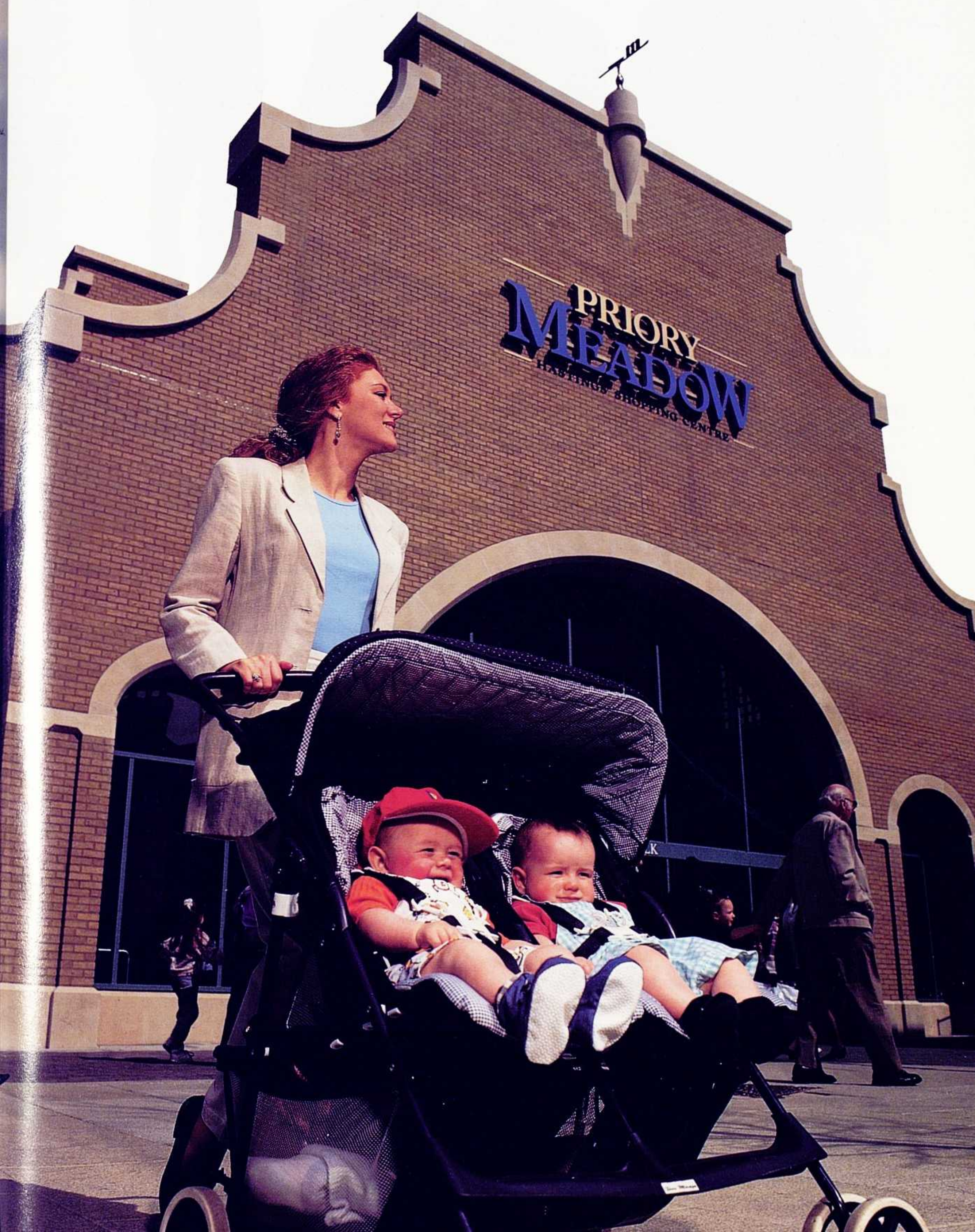
Conditions in the property market vary significantly over time and the best ways of creating value change accordingly. Boots Properties is currently shifting the emphasis of its strategy to take advantage of an upswing in institutional investors' interest in retail property. In the past the strategic emphasis has been on buying and developing properties in order to hold them and derive rental income; the business now sees greater scope for realising value by selling properties from its existing portfolio and for investing and developing to sell where market mispricing creates suitable opportunities.

Sales Although there were no development sales during the year, compared with £6.9 million in the previous year, rents from third parties in investment properties rose 20 per cent to £18.5 million. Rents from completed developments also rose sharply, from £0.2 million to £3.0 million.

Property sales contributed profits of £15.3 million compared with £1.4 million in the previous year, as the business began its strategic shift in favour of sales where these will create more value than retention. The principal sales were two investment properties – retail parks in Derby and Bradford – and several disposals of properties that had become surplus to group requirements. These included three former Childrens World sites and several former Do It All sites: in addition to its role as landlord, Boots Properties is playing a growing part in solving other property related problems for group retail businesses. One imaginative deal released Do It All from two unwanted leases after Boots Properties bought the retail park on which one of the properties stood; the park will be reconfigured and sold on.

Investment The business invested £26.5 million in new acquisitions. These included the purchase of a retail park in Brixton and a BTC store in Sutton, and the purchase and refurbishment of the Shipgates Centre in Bolton. Development capital expenditure rose 38 per cent to £65 million as schemes at Harrow, Hastings and Brecon were completed and site work began on projects in Durham and Coventry.

For the first time Boots Properties gross rental income is over £100 million.



Employees Boots is an ambitious company intent on continued growth and innovation. To achieve this aim, it depends on the energetic contribution of talented people at every level. Over the next few years the company will be paying even more attention to developing highly capable people throughout the organisation, and giving them greater freedom to take decisions and create more value.

The 'value based management' approach Boots adopted in 1990 has significantly influenced its strategic planning and encouraged managers to think in terms of long term value rather than short term profit. The priority now is to broaden the value based approach to include the way Boots manages its people, giving them the skills and opportunities to make the fullest possible contribution to the company's success.

Each of the company's eight business units is empowered to maximise shareholder value in ways appropriate to its own marketplace, customers and staff. This has resulted in some major structural changes. For example, Boots The Chemists and Boots Contract Manufacturing have both divided their businesses into three profit centres: these are focused sharply on the customers and competitor activity in their own areas of business, and have their own accountability for strategy development and value creation.

The company has refined performance management processes to align team and individual objectives more closely with business plans and initiatives. Moves towards a more involving management style include Do It All's programme to empower managers and employees to take more decisions without having to refer them to more senior managers.

A group centre action programme aims to ensure that group headquarters does only what must necessarily be done at the centre – moving decision making out to the businesses wherever possible. Over time, group headquarters will become increasingly concentrated on strategic issues, while the businesses gain greater accountability and freedom to compete more effectively.

Allocation of senior management resources will remain a key headquarters responsibility. Recent initiatives include improvements to senior management development and a centralised graduate recruitment programme. Pictured above are graduate trainees Dr Orla Flynn, Bhushan Sethi and Nick Fletcher.

Boots has progressively improved its employee pension provisions over the years. The scheme's quality was recently confirmed in an independent survey by Union Pension Services: it ranked 16th out of 224 for benefits provided and was one of only 31 awarded the top three-star rating.

In October 1996 the Boots Group Welfare Department was relaunched as BootsHelp. This confidential service provides employees and retired staff with counselling and guidance from qualified members of the British Association for Counselling.

INVESTOR IN PEOPLE

POSITIVE ABOUT DISABLED PEOPLE

Community Boots total contribution to the community through charitable and educational donations, charitable sponsorships and gifts in kind was £12.8 million in 1996/97.

The Boots Charitable Trust made donations totalling £450,000 in its priority areas: healthcare, economic development, education, family, maternity and child welfare. This included top-up donations in support of employees' fundraising for a wide variety of causes. The trust gives priority to charities benefiting Nottingham and Nottinghamshire but will also consider appeals from organisations in other areas where Boots has a major presence if they are strongly supported by the local business representation.

In March 1996 the company launched an annual Boots Employee in the Community Award to recognise and encourage UK staff who make an exceptional personal contribution in their community. The 1996 winner was Margaret Riach, deputy manager at Fads Pollock Centre, Glasgow store. She received a trophy, a cheque for £1,000 for The Special Needs Dream Club – which she manages, staffs and funds – and a personal prize of a £250 gift voucher.

The pioneering Boots Recycling Project distributed an estimated £10 million worth of surplus stock to local, national and international charities. Much of this consisted of special offer remainders, product testers and imperfect goods returned from stores, which were sorted and repaired by offenders under community service orders as part of a long-standing partnership with Nottinghamshire Probation Service.

The company has strengthened its partnership with Nottinghamshire Constabulary by providing cash and in-kind support for a number of projects. These included support for elderly victims of crime, the refurbishment of the Constabulary's four rape suites to provide more reassuring conditions for rape victims, and drugs action programmes – pictured above with community relations manager Pat Dexter is PC Charlie Warner and sniffer dog Thomas.

Boots partnership with the British Association for Early Childhood Education resulted in a national scheme to provide information and support for parents. Developed from a successful pilot scheme, this was launched at a major national conference, 'Our Children – Our Future'.

The Boots Bridge programme supports team based community projects designed to improve employability, raise aspirations and promote the personal and social development of 80 disadvantaged local young people.

Boots continues to sponsor the Royal Philharmonic Orchestra in its Nottingham residency and to play an active role in its extensive community outreach programme. A new six month pilot scheme encourages continuing links between primary schools and the orchestra.

Other educational activities during the year included two projects with the Commission for Racial Equality: the national 'All Different, All Equal' competition for young people, and support for some 30 Nottinghamshire primary and secondary schools in developing anti-racist policies and activities.

Environment The revised environmental policy, launched in 1996, devolved accountability for environmental matters to the business units, within a common framework of policies and standards based on four key principles. The following examples show their progress in applying these principles:

Reduce adverse environmental impacts Boots has been working closely with local councils to lessen the impact of staff commuting to the head office site. The aim is to reduce car commuting by ten per cent over three years and by a further ten per cent over the following five years. There are now 63 subsidised works bus services a day, and a free shuttle bus service between the site and the local rail station has increased rail use by 20 per cent. The recently introduced car sharing scheme is believed to be the largest in the country. Pictured above are secretary Liz Halsall, who cycles to work, and driver David Roberts in the free bus that circulates all day between Boots Nottingham sites.

Do It All's water-based gloss paint received the first Ecolabel for a UK retailer's own brand paint, in recognition of its low solvent content, use of raw materials, optimal performance and on-pack consumer education information.

Halfords has supported the Environment Agency's Oil Care Campaign by providing disposal advice on its own brand motor oils and filters.

Ensure efficient use of materials and energy The company supports the Government's Making a Corporate Commitment energy reduction programme. Measures to reduce energy use – and costs – during the year include the commissioning of the new £19 million energy centre on the main Nottingham site and the high efficiency lighting conversion of 25 Boots The Chemists (BTC) central London stores, expected to save 472,400 kilowatt hours a year.

Preparations for the 1997 Producer Responsibility Regulations on Packaging Waste are well advanced. For example, Boots Healthcare International's review of transit packaging has reduced the amount of packaging materials used for the Strepsils range and increased the recycled fibre content in new board specifications from 65 per cent to 100 per cent. This alone cuts waste by 43 tonnes a year.

Encourage re-use and recycling Boots Contract Manufacturing has reduced wastewater volumes by eight per cent and more than doubled cardboard recycling to over 1,300 tonnes a year. Customers returned four million plastic camera film pots – some 26 tonnes – for recycling into waste bins, some of which are used in Boots stores.

Working with the charity Sight Savers International, Boots Opticians has collected around 550,000 pairs of used spectacles for sorting and distribution in Third World countries.

Incorporate the principle of sustainable development BTC has launched its first range of wooden kitchenware products approved by the Forest Stewardship Council. These come from forests managed to balance ecological and social needs as well as producing wood.

Contents

The company has complied fully with all the provisions of the code of best practice published by the Cadbury Committee on the financial aspects of corporate governance.

Board Structure
Details of the board of directors are shown on pages 10, 11 and 49.

There are four principal board committees all of which operate within written terms of reference. Details of the present composition and the main responsibilities of these committees are as follows:

Board Audit Committee
R P Wilson
Sir Peter Davis
F M Harrison
Sir Peter Reynolds
Sir Clive Whitmore

The main responsibilities of the Board Audit Committee are:
- to review and advise the board on the interim and annual financial statements.
- to review with the external auditors the nature and scope of their audit and the results of that audit, any control issues raised by them and management's response.
- to make recommendations as to the appointment and remuneration of the external auditors and any question of their resignation or removal.
- to review the scope and results of the internal audit programme and the adequacy of the resources of the internal audit function and to receive an annual report on internal audit matters.

Board Remuneration Committee
Sir Michael Angus
Sir Peter Davis
F M Harrison
Sir Peter Reynolds
R P Wilson

The main responsibilities of the Board Remuneration Committee are outlined on page 40.

Board Nominations Committee
Sir Michael Angus
Lord Blyth of Rowington
Sir Peter Davis
F M Harrison
Sir Peter Reynolds
Sir Clive Whitmore
R P Wilson

The main responsibility of the Board Nominations Committee is to consider and make recommendations to the board about the appointment of directors, the standing for re-election of directors and the structure and composition of the board generally.

Board Social Responsibilities Committee
Sir Peter Davis
F M Harrison
M F Ruddell
Sir Clive Whitmore

The main responsibility of the Board Social Responsibilities Committee is to keep under review the company's policies and practices in the areas of social responsibility including those relating to health, safety, the environment, equal opportunities, race relations and employment of the disabled.

Internal Control

The directors are responsible for the group's system of internal financial control. These controls are established in order to safeguard the group's assets, maintain proper accounting records and ensure that financial information used within the business or published is reliable.

The company has an established framework of internal financial controls, the key elements of which are as follows:

- Members of the board have responsibility for monitoring the conduct and operations of individual businesses within the group. This includes the review and approval of business strategies and plans and the setting of key business performance targets. The group has a formal and comprehensive process for the determination of business strategies and this process is co-ordinated and monitored by group headquarters. The executive management responsible for each business are accountable for the conduct and performance of their business within the agreed strategies.
- Business plans provide a framework from which performance commitments have been agreed by group headquarters with each business. These commitments incorporate financial and strategic targets against which business performance is monitored. This monitoring includes the examination of and changes to rolling annual and half year forecasts and monthly measurement of actual achievement against key performance targets and budgets. These results are consolidated, appraised and communicated to the board.
- The company has clear requirements for the approval and control of expenditure. Investment decisions involving capital or revenue expenditure are subject to formal detailed appraisal and review according to approval levels set by the board. Significant expenditure of this nature requires approval by a director or the board. Performance reviews are undertaken by the businesses on completion of investments. Operating expenditure is controlled within each business with approval levels for such expenditure being determined by the individual businesses.
- There are clear procedures for monitoring the system of internal financial control. The audit committee meets at least three times a year and its responsibilities are outlined on page 38. It receives reports from the internal audit function on the results of work carried out under an annual risk focused internal audit plan and from the external auditors. It also requests the attendance of business management, as required, to report on controls relating to specific business activity. Internal audit also facilitate an annual process whereby businesses provide certified statements of compliance with internal financial controls, which are supported by summaries of key control activities and an assessment of significant risks, controls and resulting exposures.

On behalf of the board, the audit committee has reviewed the effectiveness of the system of internal financial control. The review revealed that reasonable steps have been taken to ensure that there is a system of internal financial control which is appropriate for a group of this size and diversity. It should be recognised that any such system can, however, provide only reasonable, and not absolute, assurance against material misstatement or loss.

Going Concern

Having made appropriate enquiries, the directors are satisfied that the company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Auditors' Report on Corporate Governance

In addition to our audit of the financial statements, we have reviewed the directors' statements on page 38 and this page on the company's compliance with the paragraphs of the Cadbury Code of Best Practice specified for our review by the Listing Rules and their adoption of the going concern basis in preparing the financial statements. The objective of our review is to draw attention to non-compliance with Listing Rules 12.43(j) and 12.43(v).

Basis of opinion We carried out our review in accordance with guidance issued by the Auditing Practices Board. That guidance does not require us to perform any additional work necessary to express a separate opinion on the effectiveness of either the group's system of internal financial control or corporate governance procedures or on the ability of the group to continue in operational existence.

Opinion With respect to the directors' statements on internal financial control and going concern on this page, in our opinion the directors have provided the disclosures required by the Listing Rules and such statements are not inconsistent with the information of which we are aware from our audit work on the financial statements.

Based on enquiry of certain directors and officers of the company, and examination of relevant documents, in our opinion the directors' statement on page 38 appropriately reflects the company's compliance with the other paragraphs of the Code specified for our review by the Listing Rules.

KPMG Audit Plc
Chartered Accountants
4th June 1997

Role of the Remuneration Committee
The Board Remuneration Committee consists of the chairman, who chairs the committee, and four non-executive directors as shown on page 38. The committee, having no members who are executive directors or who have personal financial interest in matters to be decided, is responsible for determining the remuneration, terms and conditions and bonus schemes for the executive directors, having regard to performance. As regards the constitution and operation of the remuneration committee, the company has complied in full throughout the accounting period with Section A of the best practice provisions annexed to the Stock Exchange listing rules.

Remuneration policies
In determining remuneration policies, the committee has given full consideration to the best practice provisions set out in Section B annexed to the Stock Exchange listing rules. Remuneration policies for the executive directors and the senior management team are aligned with the board's governing objective, which is to maximise the value of the company for the benefit of shareholders in terms of total shareholder return represented by share price movement and gross dividends paid. Executive bonuses are seen as a means of reinforcing this objective and rewarding executives for their achievement.
The practice of granting executive share options has ceased.

Remuneration policies are based on the following foundations:

Pay levels Executive directors' salaries and non-executive directors' fees are positioned at competitive levels in the light of independent assessment of market practices. Bonus schemes provide an opportunity for executives to receive additional rewards if, and only if, business performance reaches specified objectives.

Linkage with business strategy The way that performance is measured for executive directors flows from, and is consistent with, business strategy and therefore a significant element of an executive director's bonus is tied to generating long term returns for shareholders which compare well with those of other leading companies.

The role of equity Share ownership provides an effective way to align the interests of shareholders and executives. Therefore, half of an executive director's long term bonus is payable in shares of the company.

Directors' remuneration
Analyses of emoluments, long term bonuses and gains on share options are shown on pages 41 to 43. Details of shareholdings and outstanding share options are shown on page 44 and pension entitlements on page 45.

Components of emoluments

Salaries and fees Salaries of executive directors reflect the scope of, and changes in, their responsibilities and are reviewed annually by the remuneration committee with reference to external comparisons. The board sets the level of remuneration of the chairman and non-executive directors by reference to practice in other leading companies.

Short term executive bonus scheme This scheme rewards executive directors for achieving operating efficiencies and profitable growth in the relevant year by reference to challenging but achievable forecasts derived at the beginning of the year from strategic plans.

During 1996/97, the performance criterion was profit after tax. A bonus of 10% of base salary was payable for performance at 95% of profit after tax budget, rising to 25% of salary for performance at budget level and to a maximum of 35% when profit after tax was 110% of budget. In 1996/97 a bonus equal to 35% was earned by executive directors.

Short term profit related bonus schemes Profit related bonus schemes cover various groups of staff, including executive directors. These schemes are based on performance against target and there is a maximum payment of £6,000 to any individual.

Other benefits Staff, including executive directors, who have completed ten years' service are entitled to a long service payment. This is based upon the level of salary and the number of years' service, up to a maximum of £4,000 per annum. Payments under this scheme are being reduced gradually and will cease in the year 2001. Executive directors receive other benefits, including a company car, sick pay and holidays, which overall provide a reasonably competitive package comparable with that provided by other major companies.

Analysis of individual directors' emoluments

£000	Salaries and fees	Short term bonuses	Other benefits	Total 1997	Total 1996
Sir Michael Angus (chairman)	**120**	–	–	**120**	120
Lord Blyth (highest paid director)	**500**	**181**	**20**	**701**	595
Sir Peter Davis	**27**	–	–	**27**	28
F M Harrison	**26**	–	–	**26**	23
A H Hawksworth (to 31st July 1996)	**112**	**28**	**4**	**144**	259
Sir Gordon Hourston (to 31st July 1995)	–	–	–	–	168
Sir Ian Prosser (to 25th July 1996)	**9**	–	–	**9**	27
Sir Peter Reynolds	**27**	–	–	**27**	27
M F Ruddell	**215**	**81**	**18**	**314**	266
S G Russell	**240**	**90**	**11**	**341**	220
D A R Thompson	**260**	**96**	**17**	**373**	313
J J H Watson (from 26th September 1996)	**90**	**35**	**6**	**131**	–
B E Whalan	**175**	**61**	**13**	**249**	191
Sir Clive Whitmore	**25**	–	–	**25**	23
R P Wilson	**27**	–	–	**27**	27
	1,853	**572**	**89**	**2,514**	2,287

Long term bonus scheme This scheme provides a direct link between the pay of executive directors and the creation of value for shareholders. Company performance is measured over rolling, four year cycles, in terms of total shareholder return relative to a peer group of ten other leading companies. During the cycle ended 31st March 1997, the chosen peer group was:

Great Universal Stores
Kingfisher
Marks & Spencer
Reckitt & Colman
J Sainsbury
Sears
Smith & Nephew
SmithKline Beecham
Tesco
W H Smith

The peer group is reviewed before each performance cycle to maintain its relevance. For the cycle which commenced in April 1997 the committee has decided to substitute Argos for Sears. Transitional performance cycles began on 1st April 1995, the first one ended on 31st March 1997 and further cycles will end on 31st March 1998 and 1999. From April 1996, four year cycles commenced on an annual basis. Accordingly, executive directors will have the opportunity of receiving long term bonus payments annually.

The amount of bonus depends upon the company's comparative performance against its peer group on the following scale:

Comparative position in peer group league table	1	2	3	4	5	6	7	8	9	10	11
Bonus % of average annual salary	90	90	90	65	55	45	35	25	Nil	Nil	Nil

For the cycle which commenced in April 1997 there will be nil bonus if the position in the above league table is eighth or lower.

After the end of each performance cycle, one half of any bonus earned will be paid in cash. The value of the remaining half will be converted into an equivalent number of shares in the company in respect of which the executive director will have conditional rights. The number of shares will be calculated by dividing half of the value of the long term bonus by the quotation for a share as derived from the official daily list of the London Stock Exchange on the date for payment of the cash proportion (in 1997, being 20th June). The executive director will normally become entitled to receive those shares only after remaining employed for a further three years. If a director leaves the company during the three-year period (except in the case of normal retirement, disability or death), his conditional entitlement to those shares will lapse.

Details of long term bonus earnings which crystallised during the year, excluding bonus relating to periods prior to becoming a director, are as follows:

£000	**Total cash 1997**	Total cash 1996
Lord Blyth	**157**	580
A H Hawksworth	**88**	239
Sir Gordon Hourston	**–**	296
M F Ruddell	**67**	228
S G Russell	**66**	76
D A R Thompson	**81**	265
J J H Watson	**15**	–
B E Whalan	**53**	13
	527	1,697

Each executive director will also be awarded conditional rights to receive ordinary shares in the company having a market value on 20th June 1997 equivalent to the cash bonus shown above, except in the case of Mr A H Hawksworth who has retired. The director will normally become entitled to receive those shares in June 2000 if the conditions are satisfied.

Gain on share options

Details of executive and SAYE share options are shown on pages 44 and 45. Gains on share options represent the number of shares under option which have been exercised, valued at the difference between the market price at the date of exercise and the exercise price paid.

Details of gains on share options exercised during the year are as follows:

	Exercise price	Number of shares	Market price at date of exercise	Gain 1997 £000	Gain 1996 £000
	399p	**167,500**	**631p**	**389**	
	337p	**2,225**	**653p**	**7**	
Lord Blyth				**396**	–
	399p	**65,000**	**615p**	**140**	
	437p	**22,500**	**615p**	**40**	
	438p	**52,500**	**615p**	**93**	
	337p	**2,017**	**648p**	**6**	
	410p	**634**	**647p**	**1**	
A H Hawksworth				**280**	18
	399p	**60,000**	**624p**	**135**	
	337p	**2,225**	**656p**	**7**	
M F Ruddell				**142**	–
S G Russell	**–**	**–**	**–**	**–**	136
	399p	**45,000**	**632p**	**105**	
	437p	**27,500**	**632p**	**54**	
	337p	**3,338**	**656p**	**11**	
D A R Thompson				**170**	–
J J H Watson	**–**	**–**	**–**	**–**	–
B E Whalan	**–**	**–**	**–**	**–**	139
Total				**988**	293

Directors' shareholdings and share options
The beneficial interests of the directors and their families in the share capital of the company at 31st March 1997 are shown below. The company's register of directors' interests, which is open to inspection, contains full details of directors' shareholdings and options to subscribe.

Shareholdings

	Ordinary shares 1997	Ordinary shares 1996
Sir Michael Angus	**3,348**	3,348
Lord Blyth	**214,269**	41,562
Sir Peter Davis	**3,194**	3,098
F M Harrison	**1,041**	1,010
Sir Peter Reynolds	**3,557**	3,502
M F Ruddell	**32,763**	29,473
S G Russell	**21,327**	20,689
D A R Thompson	**48,959**	40,583
J J H Watson	**22,371**	22,150*
B E Whalan	**6,775**	6,569
Sir Clive Whitmore	**1,562**	1,515
R P Wilson	**2,000**	2,000

*at date of appointment

In addition, Sir Peter Reynolds has a non-beneficial interest in 1,300 (1996 1,300) ordinary shares. All directors are also deemed to have an interest in the 116,209 ordinary shares of the company held by the Boots ESOP Trust Ltd established to facilitate the operation of the company's executive bonus schemes. No director holds any loan capital. Directors' shareholdings on 4th June 1997 remain unchanged except that Mr M F Ruddell has acquired an additional nine shares.

Share Options
An analysis of the number of outstanding directors' share options at each exercise price is as follows:

Under SAYE scheme

	350p	352p	410p	415p	421p	485p	1997 Total	1996 Total
Lord Blyth	**1,971**	–	**841**	–	–	–	**2,812**	5,037
M F Ruddell	–	**2,130**	**841**	–	–	–	**2,971**	5,196
S G Russell	–	–	–	–	**4,097**	–	**4,097**	4,097
D A R Thompson	–	–	–	–	–	**1,422**	**1,422**	3,338
J J H Watson	–	–	–	–	–	**3,556**	**3,556**	3,556*
B E Whalan	**2,957**	–	–	**1,662**	–	–	**4,619**	4,619

*at date of appointment

SAYE options in respect of 1,422 shares were granted to Mr D A R Thompson during the year. Following the retirement of Mr A H Hawksworth, options in respect of 2,098 shares previously granted to him have lapsed.

Under executive scheme

	286p	399p	437p	438p	482p	531p	1997 Total	1996 Total
Lord Blyth	–	–	**100,000**	**95,000**	**27,500**	**20,000**	**242,500**	410,000
M F Ruddell	–	**17,500**	**5,000**	**45,000**	**35,000**	**5,000**	**107,500**	167,500
S G Russell	**10,000**	**35,000**	**20,000**	–	–	**5,000**	**70,000**	70,000
D A R Thompson	–	–	–	**45,000**	–	**70,000**	**115,000**	187,500
J J H Watson	–	**17,500**	**22,500**	**5,000**	**12,500**	**5,000**	**62,500**	62,500*
B E Whalan	–	–	–	**32,500**	–	**7,500**	**40,000**	40,000

*at date of appointment

Executive share options allow the holders to buy the company's shares at a future date at a price based on the market price prevailing a few days before the date of grant. As stated on page 40, the practice of granting executive share options has ceased.

No executive options lapsed during the year and no new ones were granted. The directors have agreed to exercise all outstanding executive share options by 31st March 1998.

Information on the company's share option schemes, including dates from when options are exercisable and expiry dates, is shown in note 21. The market price of the company's shares at 31st March 1997 was 675p and the range of market prices during the year was 555p to 701p.

Directors' interests in share options on 4th June 1997 remain unchanged.

Pension entitlement
All executive directors receive pension entitlements from the company's principal UK defined benefit pension scheme, referred to in note 25, and supplementary pension arrangements which provide additional benefits aimed at producing a pension of two-thirds final base salary. Six executive directors are members of the pension scheme and non-executive directors do not participate. There are no money purchase schemes. Pension entitlement is calculated only on the salary element of remuneration. The chief executive is entitled to the same level of pension benefits enjoyed by other executive directors despite his shorter service but after adjusting for pensions arising from earlier employment.

The study group on directors' remuneration chaired by Sir Richard Greenbury recommended that the remuneration committee's report should include details of pension entitlements calculated on a basis to be recommended by the Faculty of Actuaries and the Institute of Actuaries. Definitive requirements have now been established by the London Stock Exchange and details of pensions earned by the executive directors are shown below.

	Age at 31st March 1997	Directors' contributions during the year £000	Increase in accrued pension entitlement during the year £000	Total accrued pension entitlement at 31st March 1997 £000
Lord Blyth (highest paid director)	56	24	34	237
A H Hawksworth (to 31st July 1996)	61	3	3	150*
M F Ruddell	53	10	10	115
S G Russell	52	11	32	122
D A R Thompson	54	12	14	143
J J H Watson (from 26th September 1996)	55	4	19	81
B E Whalan	52	8	9	86

*at date of retirement

The pension entitlement shown is that which would be paid annually on retirement based on service to the end of the year and the increase in accrued pension during the year excludes any increase for inflation. Members of the scheme have the option to pay additional voluntary contributions; neither the contributions nor the resulting benefits are included in the above table.

The normal retirement age is 60. Early retirement is available subject to Trustee consent and a reduction in the accrued pension. Under the current early retirement terms the pension can be drawn from age 59 without reduction.

On death after retirement spouses' pensions of two-thirds of members' pensions and children's pensions of two-ninths of members' pensions for up to three dependant children are payable (subject to Inland Revenue limits).

Pensions in payment are guaranteed to be increased annually by 5% or the increase in the Index of Retail Prices (RPI) if less. Additional increases may be granted at the discretion of the Trustees and subject to the consent of the company.

Any transfer value calculations would make allowance for discretionary benefits including pension increases and early retirement.

Contracts of service
The chairman has a fixed term service contract with the company which has been extended by a year to expire in July 1998. None of the non-executive directors has a service contract, including Sir Peter Reynolds and Mr R P Wilson who are standing for re-appointment as directors at the annual general meeting.

Each executive director has a service contract which is terminable by the company on two years' notice including Mr J J H Watson who is standing for re-appointment at the annual general meeting. All such contracts terminate when the director in question reaches the age of 60. The remuneration committee considers that it is appropriate for executive directors to have a service contract on such terms having regard to their seniority and value to the company and the generally prevailing practice among comparable companies. If any service contract were to be terminated by the company giving less than the contractual period of notice, the requirement for the director to mitigate his loss would be taken into account in determining any resulting compensation.

It is recognised that directors may be invited to become non-executive directors of other companies and that the additional experience and knowledge that this brings will benefit the company. Accordingly, the policy is to allow executive directors to accept up to two such appointments where no conflict of interest arises and to retain the fees received.

Signed for the remuneration committee on behalf of the board:

Sir Michael Angus
Chairman

Directors' Responsibilities Statement
The directors are required by the Companies Act 1985 to prepare financial statements which give a true and fair view of the profit or loss for the financial year and of the state of affairs of the company and the group at the end of that period. The directors are of the opinion that suitable accounting policies have been used and applied consistently, applicable accounting standards have been followed, and reasonable and prudent judgements and estimates have been made. The financial statements have been prepared on a going concern basis. The directors have a responsibility to ensure that the company and its subsidiaries have suitable internal controls for maintaining adequate accounting records, for safeguarding the assets of the group, and for preventing and detecting fraud and other irregularities.

Auditors' Report
Report of the Auditors to the members of The Boots Company PLC.

We have audited the financial statements on pages 50 to 75. We have also examined the amounts disclosed relating to emoluments, share options and long term incentive scheme interests of the directors which form part of the board remuneration committee's report on pages 40 to 45.

Respective responsibilities of directors and auditors As described on page 46, the company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you.

Basis of opinion We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 31st March 1997 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
Birmingham
4th June 1997

The directors of The Boots Company PLC present their annual report to shareholders, together with the audited financial statements for the year ended 31st March 1997.

Principal activities

The group's principal activities during the year were:

- retailing of chemists' merchandise, autoparts and DIY products.
- the provision of opticians' services.
- the development, manufacture and marketing of healthcare and consumer products.
- property investment, development and management.

Further information on the group's continuing activities is provided on pages 12 and 13.

Business review and future developments

A review of group activities during the year and likely future developments are dealt with in the Chief Executive's Review and other business reviews on pages 6 to 33.

Group results

The group profit and loss account for 1997 shown on page 50 includes the following details:

	1997 £000	1996 £000
Turnover	**4,578.0**	4,124.7
Profit on ordinary activities before exceptional items and taxation	**536.2**	493.5
Profit on ordinary activities before taxation	**571.1**	507.7

Appropriations

The directors recommend the payment of a final dividend of 14.3p per share which, if approved by shareholders, will be paid on 22nd August 1997 to shareholders registered on 20th June 1997. On 4th June 1997 the directors declared a second interim dividend of 44.2p to be paid on 13th June 1997 to shareholders registered on 4th June 1997. When added to the first interim dividend of 6.2p paid on 7th February 1997, this makes a total dividend payment for the year of 64.7p per share (1996 18.5p per share). Payment of these dividends requires £586.1m (1996 £176.4m), leaving a loss of £192.8m (1996 profit £164.2m).

Group structure

On 17th May 1996, the disposal of Childrens World Ltd to Storehouse PLC was completed.

On 14th June 1996, the group acquired W H Smith Group's interest in Do It All giving the group complete ownership.

On 20th September 1996, Boots Healthcare International acquired a leading French skincare specialist, Laboratoires Lutsia SA.

On 10th October 1996, the group announced that it plans to open Boots health and beauty stores on a pilot basis in Thailand, The Netherlands and Japan. A joint venture has been set up with the Minor Group in Thailand.

On 9th January 1997, Boots Healthcare International acquired the Italian skincare specialist, Farmila Dermical SpA.

On 20th March 1997, Boots Contract Manufacturing acquired PLCP SA, the holding company of Roval SA and Roval Cosmetica SA, both of which are engaged in the manufacture and supply of personal care toiletry products.

Share capital

Details of changes in the share capital are shown in note 21 on page 71.

On 27th June 1996, the company entered the market and purchased 51.4m shares, 5.4% of the total in issue on that date, at a total cost of £300m.

At the annual general meeting on 25th July 1996, shareholders authorised the company to make market purchases of its own ordinary shares of 25p each.

At the forthcoming annual general meeting on 24th July 1997, shareholders will be invited to renew the company's authority to make further market purchases. The authority will be limited to the purchase of not more than 90.6m ordinary shares, being approximately 10% of the ordinary shares in issue at the date of this report; the maximum price payable to be 105% of the average of the closing mid market quotations for the five business days before the purchase, with a 25p minimum, exclusive of any expenses payable by the company.

Shareholders

As at 4th June 1997 the register maintained by the company under Section 211 of the Companies Act 1985 did not contain any notification to the company that anyone held 3% or more of the issued ordinary share capital of the company.

Fixed assets
The directors are of the opinion that the market value of the group's properties at 31st March 1997 was not materially different from that stated in the financial statements.

Payment of suppliers
It is the policy of the company to agree appropriate terms and conditions for its transactions with suppliers (by means ranging from standard written terms to individually negotiated contracts) and that payment should be made in accordance with those terms and conditions, provided that the supplier has also complied with them.

The number of days purchases outstanding at 31st March 1997 was 25.

Staff
The company continues to involve staff in the decision-making process and communicates regularly with them during the year. Their involvement in the company's performance is encouraged with employee bonus and share schemes. The involvement extends to the board of Boots Pensions Ltd, on which there are three employee representatives. The company's aim for all members of staff and applicants for employment is to fit the qualifications, aptitude and ability of each individual to the appropriate job, and to provide equal opportunity, regardless of sex, religion or ethnic origin. The company does all that is practicable to meet its responsibility towards the employment and training of disabled people. Where an employee becomes disabled, every effort is made to provide continuity of employment in the same job or a suitable alternative. Further information is shown on page 34.

Charitable donations
Donations for charitable and educational purposes in the UK for the year were £2,126,000 (1996 £2,060,000). There were no political payments. Further information on community relations is shown on pages 35 and 36.

Directors
Details of directors in office on 31st March 1997 are shown on pages 10 and 11. In addition, Sir Ian Prosser and Mr A H Hawksworth were directors until their retirement on 25th July 1996 and 31st July 1996 respectively.

Sir Michael Angus, Sir Peter Reynolds and Mr R P Wilson retire by rotation at the annual general meeting in accordance with Article 87 and offer themselves for re-appointment.

Mr J J H Watson, having been appointed on 26th September 1996, retires at the annual general meeting in accordance with Article 86 and offers himself for re-appointment.

Mr B E Whalan is retiring as a director of the company on 31st July 1997.

No director had any interest, either during or at the end of the financial year, in any contract which was significant in relation to the group's business, other than a service contract.

Information on service contracts and details of the interests of the directors and their families in the share capital of the company at 31st March 1997 are shown in the Board Remuneration Committee's Report on pages 44 and 45.

Auditors
A resolution to re-appoint KPMG Audit Plc and to authorise the directors to fix their remuneration will be proposed at the annual general meeting.

By order of the board
4th June 1997
I A Hawtin
Secretary

Group Profit and Loss Account

For the year ended 31st March 1997

	Notes	Before exceptional items 1997 £m	Exceptional items (note 3) 1997 £m	Total 1997 £m	Before exceptional items 1996 £m	Exceptional items (note 3) 1996 £m	Total 1996 £m
Turnover							
Continuing operations – excluding acquisitions		**4,291.8**	**–**	**4,291.8**	4,010.4	–	4,010.4
– acquisitions		**273.3**	**–**	**273.3**	–	–	–
Turnover from continuing operations		**4,565.1**	**–**	**4,565.1**	4,010.4	–	4,010.4
Discontinued operation		**12.9**	**–**	**12.9**	114.3	–	114.3
Total turnover	1	**4,578.0**	**–**	**4,578.0**	4,124.7	–	4,124.7
Operating profit							
Continuing operations – excluding acquisitions		**496.4**	**8.6**	**505.0**	444.0	12.8	456.8
– acquisitions		**(4.7)**	**–**	**(4.7)**	–	–	–
Operating profit from continuing operations		**491.7**	**8.6**	**500.3**	444.0	12.8	456.8
Discontinued operation		**0.1**	**–**	**0.1**	(1.4)	–	(1.4)
Total operating profit	1,2	**491.8**	**8.6**	**500.4**	442.6	12.8	455.4
Profit/(loss) on disposal of fixed assets	3						
Continuing operations		**–**	**11.3**	**11.3**	–	1.2	1.2
Profit on disposal of businesses	4						
Continuing operations		**–**	**–**	**–**	–	0.2	0.2
Discontinued operation		**–**	**15.0**	**15.0**	–	–	–
Profit on ordinary activities before interest		**491.8**	**34.9**	**526.7**	442.6	14.2	456.8
Net interest	5	**44.4**	**–**	**44.4**	50.9	–	50.9
Profit on ordinary activities before taxation		**536.2**	**34.9**	**571.1**	493.5	14.2	507.7
Tax on profit on ordinary activities	6	**(175.0)**	**(3.3)**	**(178.3)**	(163.4)	(3.7)	(167.1)
Profit on ordinary activities after taxation		**361.2**	**31.6**	**392.8**	330.1	10.5	340.6
Equity minority interests		**0.5**	**–**	**0.5**	–	–	–
Profit for the financial year attributable to shareholders	7	**361.7**	**31.6**	**393.3**	330.1	10.5	340.6
Dividends	8			**(586.1)**			(176.4)
(Loss)/profit retained				**(192.8)**			164.2
Earnings per share	9	**39.5p**	**3.4p**	**42.9p**	34.7p	1.1p	35.8p

Other Primary Statements of the Group

For the year ended 31st March 1997

Statement of Total Recognised Gains and Losses

	1997 £m	1996 £m
Profit for the financial year attributable to shareholders	**393.3**	340.6
Surplus on revaluation of investment properties	**27.1**	16.0
Currency translation differences on foreign currency net investments	**(10.4)**	3.3
Other gains and losses	**0.3**	–
Total recognised gains and losses for the year	**410.3**	359.9

Note on Historical Cost Profits and Losses

	1997 £m	1996 £m
Reported profit on ordinary activities before taxation	**571.1**	507.7
Realisation of property revaluation (deficits)/surpluses	**(3.1)**	5.3
Difference between historical cost depreciation charge and actual charge for the year calculated on revalued amounts	**0.2**	0.2
Historical cost profit on ordinary activities before taxation	**568.2**	513.2
Historical cost (loss)/profit retained	**(195.7)**	169.7

Reconciliation of Movements in Shareholders' Funds

	1997 £m	1996 £m
Total recognised gains and losses for the year	**410.3**	359.9
Dividends	**(586.1)**	(176.4)
New share capital issued (net of expenses)	**7.7**	9.1
Repurchase of shares (note 21)	**(300.0)**	–
Goodwill purchased	**(124.5)**	(8.7)
Goodwill released on disposal of businesses and intangible fixed assets	**4.4**	0.1
Scrip dividends	**8.3**	10.6
Net (decrease)/increase in shareholders' funds	**(579.9)**	194.6
Opening shareholders' funds	**2,201.5**	2,006.9
Closing shareholders' funds	**1,621.6**	2,201.5

Balance Sheets

31st March 1997

	Notes	Group 1997 £m	Group 1996 £m	Parent 1997 £m	Parent 1996 £m
Fixed assets					
Intangible assets	10	**33.8**	26.6	**3.2**	2.6
Tangible assets	11	**1,769.7**	1,624.4	**584.8**	205.2
Investments	12	**0.5**	46.4	**944.3**	962.2
		1,804.0	1,697.4	**1,532.3**	1,170.0
Current assets					
Stocks	13	**667.3**	522.1	**186.1**	168.4
Debtors falling due within one year	14	**347.2**	358.9	**545.7**	735.3
Debtors falling due after more than one year	14	**133.2**	2.2	**293.9**	186.0
Investments and deposits	15	**603.0**	893.9	**584.0**	868.6
Cash at bank and in hand		**30.9**	15.3	**119.0**	0.1
		1,781.6	1,792.4	**1,728.7**	1,958.4
Creditors: Amounts falling due within one year	16	**(1,597.2)**	(1,092.1)	**(1,075.8)**	(1,264.1)
Net current assets		**184.4**	700.3	**652.9**	694.3
Total assets less current liabilities		**1,988.4**	2,397.7	**2,185.2**	1,864.3
Creditors: Amounts falling due after more than one year	17	**(274.9)**	(150.5)	**(1,162.5)**	(562.5)
Provisions for liabilities and charges	19	**(92.0)**	(45.7)	**(12.8)**	(15.8)
Net assets		**1,621.5**	2,201.5	**1,009.9**	1,286.0
Capital and reserves					
Called up share capital	20,21	**226.5**	238.4	**226.5**	238.4
Share premium account	20	**233.7**	226.9	**233.7**	226.9
Revaluation reserve	20	**351.9**	321.4	**–**	–
Capital redemption reserve	20	**36.8**	24.0	**36.8**	24.0
Profit and loss account	20	**772.7**	1,390.8	**512.9**	796.7
Equity shareholders' funds		**1,621.6**	2,201.5	**1,009.9**	1,286.0
Equity minority interests		**(0.1)**	–	**–**	–
		1,621.5	2,201.5	**1,009.9**	1,286.0

The financial statements were approved by the board of directors on 4th June 1997 and are signed on its behalf by:

Sir Michael Angus
Chairman

Lord Blyth of Rowington
Deputy Chairman and Chief Executive

David Thompson
Joint Group Managing Director and Finance Director

Group Cash Flow Statement

For the year ended 31st March 1997

Reconciliation of operating profit to operating cash flows

	Notes	1997 £m	1996 £m
Operating profit		**500.4**	455.4
Exceptional operating items	3	**(8.6)**	(12.8)
Operating profit before exceptional items		**491.8**	442.6
Operating loss of associated undertaking		**0.7**	10.1
Depreciation and amortisation		**111.8**	104.8
Loss on disposal of tangible fixed assets, excluding properties		**4.9**	5.5
Increase in stocks, including property development stock		**(73.5)**	(30.5)
Increase in debtors		**(6.9)**	(19.3)
Increase in creditors		**9.6**	11.0
Other non-cash movements		**1.5**	(0.5)
Net cash inflow before expenditure relating to exceptional items		**539.9**	523.7
Exceptional operating cash flows	22	**(24.8)**	12.8
Cash inflow from operating activities		**515.1**	536.5

The cash inflow from operating activities includes £2.2m (1996 £Nil) relating to discontinued operation.

Group cash flow statement

	Notes	1997 £m	1996 £m
Cash inflow from operating activities		**515.1**	536.5
Returns on investment and servicing of finance	22	**39.1**	16.2
Taxation		**(174.4)**	(152.7)
Capital expenditure and financial investment	22	**(169.6)**	(197.3)
Acquisitions and disposals	4	**(40.4)**	(48.4)
Equity dividends paid		**(169.8)**	(154.4)
Cash outflow before use of liquid resources and financing		**–**	(0.1)
Management of liquid resources	22	**288.5**	122.8
Financing	22	**(258.1)**	(125.4)
Increase/(decrease) in cash		**30.4**	(2.7)

Cash is defined as cash in hand and deposits repayable on demand, less overdrafts repayable on demand.

Reconciliation of net cash flow to movement in net funds

	Notes	1997 £m	1996 £m
Increase/(decrease) in cash		**30.4**	(2.7)
Cash inflow from decrease in liquid resources	23	**(288.5)**	(122.8)
Cash (inflow)/outflow from change in borrowings and lease financing	23	**(34.1)**	134.5
Movement in net funds resulting from cash flows		**(292.2)**	9.0
Investments and borrowings of businesses acquired		**(9.9)**	(1.1)
Finance lease additions		**(8.7)**	(6.7)
Increase in value of investment in 10.125% bond 2017		**13.6**	12.5
Currency and other non-cash adjustments		**0.5**	(4.7)
Movement in net funds during the year		**(296.7)**	9.0
Opening net funds		**526.2**	517.2
Closing net funds	23	**229.5**	526.2

Net funds comprise cash, liquid resources, finance leases and all other borrowings.

The following accounting policies have been used in dealing with items which are considered material in relation to the group and parent company financial statements.

Basis of accounting

The financial statements have been prepared in accordance with applicable accounting standards and under alternative accounting rules set out in Schedule 4 to the Companies Act 1985, being prepared under the historical cost convention adjusted by the revaluations of certain properties. However, compliance with SSAP19 'Accounting for investment properties' requires a departure from the requirements of the Companies Act 1985 relating to the depreciation of investment properties as described in note 11.

A separate profit and loss account for the parent company has not been presented as permitted by section 230 of the Companies Act 1985.

Since the previous Annual Report, the requirements of FRS8 'Related Party Disclosures' and FRS1 'Cash Flow Statements (Revised)' have become effective. The group had no material transactions with related parties during the year and has implemented the revised cash flow standard in the new format group cash flow statement and related notes. Prior period figures have been restated where appropriate.

Consolidation

The group financial statements combine the results of the parent undertaking and all its subsidiary and associated undertakings, to the extent of group ownership and after eliminating intra-group transactions.

The results of businesses acquired or disposed of are consolidated from or to the effective dates of acquisition or disposal.

Associated undertakings are those undertakings, not recognised as subsidiaries, in which the group has a participating interest of between 20% and 50% and over whose policies the group is able to exercise a significant degree of influence. The group's share of the results of associated undertakings is included in the profit and loss account and its share of their net assets excluding goodwill is included in investments in the group balance sheet.

In the parent company balance sheet, investments in subsidiary and associated undertakings are stated at cost less provision for permanent diminution in value.

Foreign currencies

The results and cash flows of overseas subsidiaries are translated into sterling on an average exchange rate basis, weighted by the actual results of each month. Assets and liabilities including currency swaps are translated into sterling at the rates of exchange ruling at the balance sheet date.

Exchange differences arising from the translation of the results and net assets of overseas subsidiaries, less offsetting exchange differences on foreign currency borrowings and currency swaps hedging those assets, are dealt with through reserves.

All other exchange differences are dealt with in the profit and loss account.

The cost of the parent company investment in shares in overseas subsidiaries is stated at the rate of exchange in force at the date each investment was made.

Goodwill

Goodwill on acquisitions, being the excess of the cost of investment in subsidiary and associated undertakings over the fair value of net assets acquired, is set off against reserves. Fair values are attributed to the identifiable assets and liabilities that existed at the date of acquisition, reflecting their condition at that date. Adjustments are also made to bring the accounting policies of acquired businesses into alignment with those of the group. The costs of integrating and reorganising acquired businesses are charged to the post-acquisition profit and loss account.

On disposal of a business, any goodwill previously set off against reserves is charged in the calculation of the profit or loss on disposal.

Fixed assets and depreciation

No depreciation is provided on freehold land, investment properties, shop freeholds and shop long leaseholds with more than 50 years to run, nor on assets in the course of construction. In the opinion of the directors, shop properties are maintained to such a standard by a programme of repair and refurbishment that the estimated residual value of these properties, based on the prices prevailing at the time of acquisition or subsequent revaluation, are sufficiently high to make any depreciation charge unnecessary. Any permanent diminution in the value of such properties is charged to the profit and loss account as it arises.

Other tangible fixed assets are written off by equal instalments over their expected useful lives as follows:
Freehold buildings, other than shops – 40 to 66 years
Computer equipment – 3 to 8 years
Motor cars – 4 or 5 years
Other motor vehicles – 3 to 10 years
Fixtures and plant – 5 to 20 years

Shop leasehold properties – Remaining period of lease when less than 50 years
Other leasehold properties – Remaining period of lease
Investment properties are revalued annually and included in the balance sheet at their existing use value.
To qualify as an investment property, over 50% of rental income from the property must derive from non-group tenants.

Profits and losses arising from the disposal of properties which have previously been revalued are calculated by reference to their carrying value.

Intangible assets acquired, which are capitalised only if separately identifiable, are amortised over estimated useful lives of up to a maximum of 20 years. Similar assets created within the business are not capitalised and expenditure is charged against profits in the year in which it is incurred. The carrying value of intangible assets is reviewed annually and any permanent diminution in value charged to the profit and loss account.

Turnover
Turnover comprises sales to external customers (excluding VAT and other sales taxes) and rental income.

Stocks
Stocks are valued at the lower of cost and net realisable value. Cost comprises purchase cost of goods, direct labour and those overheads related to manufacture and distribution based on normal activity levels.

Research and development
Expenditure on research and development, other than on buildings and plant, is charged against profit in the year in which it is incurred.

Pension funding
The company and its UK subsidiaries operate pension schemes under which contributions by employees and by the companies are held in trust funds separated from the companies' finances. Actuarial valuations of the schemes are conducted at three year intervals and include a review of contributions.

The cost of providing pensions is spread over the employees' working lives with the companies. The cost charged to the profit and loss account in any year may not always equal the employer contributions to the pension schemes.

Leases
The rental costs of properties and other assets held under operating leases are charged to the profit and loss account on a straight line basis. Benefits received as an incentive to sign a lease, whatever form they may take, are credited to the profit and loss account on a straight line basis over the lease term or, if shorter than the full lease term, over the period to the review date on which the rent is first expected to be adjusted to the prevailing market rate.

The cost of assets held under finance leases is included under tangible fixed assets and depreciation is provided in accordance with the policy for the class of asset concerned. The corresponding obligations under these leases are shown as creditors. The finance charge element of rentals is charged to the profit and loss account to produce, or approximate to, a constant periodic rate of charge on the remaining balance of the outstanding obligations.

Deferred taxation
A deferred taxation provision is made only where the effects of timing differences between profits as stated in the financial statements and as computed for tax purposes are likely to reverse in the foreseeable future. Advance corporation tax is carried forward to the extent it is expected to be recovered.

No provision is made for any potential liability to corporation tax on capital gains arising on disposals of assets where the liability is expected to be deferred indefinitely.

No provision is made for taxation liabilities which would arise on the distribution of profits retained by overseas subsidiaries and associates as there is no present intention to remit the major part of these profits.

Exceptional items
Exceptional items are those which fall within the ordinary activities of the group and which need to be disclosed by virtue of their size or incidence. Such items are included within operating profit unless they represent profits or losses on the sale or termination of an operation, costs of a fundamental reorganisation or restructuring having a material effect on the nature and focus of the group's operations, profits or losses on the disposal of fixed assets (other than marginal adjustments to depreciation previously charged), or provisions in respect of such items. In these cases, separate disclosure is provided on the face of the profit and loss account after operating profit.

1 Segmental information

(i) Turnover by business segment	Notes	Total 1997 £m	Inter-segment 1997 £m	External 1997 £m	Total 1996 £m	Inter-segment 1996 £m	External 1996 £m
Continuing operations							
Boots The Chemists		**3,313.5**	**–**	**3,313.5**	3,107.6	–	3,107.6
Halfords		**412.8**	**0.9**	**411.9**	390.5	0.9	389.6
Boots Opticians		**148.1**	**–**	**148.1**	132.3	–	132.3
A G Stanley		**109.4**	**–**	**109.4**	104.9	–	104.9
Do It All – subsidiary undertaking	a	**254.6**	**–**	**254.6**	–	–	–
– associated undertaking	a	**46.8**	**–**	**46.8**	170.7	–	170.7
Boots Healthcare International	b	**243.4**	**16.0**	**227.4**	206.7	16.7	190.0
Boots Contract Manufacturing		**259.5**	**178.2**	**81.3**	239.4	175.7	63.7
Boots Properties	c	**102.1**	**83.2**	**18.9**	102.9	80.6	22.3
		4,890.2	**278.3**	**4,611.9**	4,455.0	273.9	4,181.1
Discontinued operation							
Childrens World		**12.9**	**–**	**12.9**	114.3	–	114.3
		4,903.1	**278.3**	**4,624.8**	4,569.3	273.9	4,295.4

Analysis of external turnover	Continuing operations 1997 £m	Discontinued operation 1997 £m	Total 1997 £m	Continuing operations 1996 £m	Discontinued operation 1996 £m	Total 1996 £m
Group profit and loss account	**4,565.1**	**12.9**	**4,578.0**	4,010.4	114.3	4,124.7
Share of associated undertaking	**46.8**	**–**	**46.8**	170.7	–	170.7
	4,611.9	**12.9**	**4,624.8**	4,181.1	114.3	4,295.4

a The group results include Do It All as a wholly owned subsidiary undertaking with effect from 14th June 1996 and as an associated undertaking (50% interest) up to this date (see note 4). In accordance with accounting standards, the group profit and loss account includes the turnover of Do It All as a subsidiary undertaking only.

b Acquisitions contributed £18.7m to the turnover of Boots Healthcare International in the current year (see note 4).

c Boots Properties' turnover includes development income of £0.5m (1996 £7.0m).

(ii) Turnover by geographical segment	Origin 1997 £m	Origin 1996 £m	Destination 1997 £m	Destination 1996 £m
Continuing operations				
UK	**4,456.9**	4,063.6	**4,395.9**	4,016.0
Rest of Europe	**96.2**	58.1	**126.2**	81.3
Rest of World	**81.3**	76.4	**89.8**	83.8
Inter-segment	**(22.5)**	(17.0)	**–**	–
	4,611.9	4,181.1	**4,611.9**	4,181.1
Discontinued operation				
UK	**12.9**	114.3	**12.9**	114.3
	4,624.8	4,295.4	**4,624.8**	4,295.4

Share of associated undertaking turnover for both origin and destination is included in UK.

(iii) Operating profit by business segment	Notes	Before exceptional items 1997 £m	Exceptional items (note 3) 1997 £m	Total 1997 £m	Before exceptional items 1996 £m	Exceptional items (note 3) 1996 £m	Total 1996 £m
Continuing operations							
Boots The Chemists		**426.5**	**–**	**426.5**	384.8	–	384.8
Halfords		**26.8**	**–**	**26.8**	22.1	–	22.1
Boots Opticians		**13.8**	**12.7**	**26.5**	10.9	12.8	23.7
A G Stanley		**(11.8)**	**–**	**(11.8)**	(12.2)	–	(12.2)
Do It All – subsidiary undertaking	a	**(6.2)**	**–**	**(6.2)**	–	–	–
– associated undertaking	a	**(0.7)**	**–**	**(0.7)**	(10.1)	–	(10.1)
Boots Healthcare International	b	**(6.6)**	**(2.3)**	**(8.9)**	(8.2)	–	(8.2)
Boots Contract Manufacturing		**21.2**	**(1.8)**	**19.4**	16.7	–	16.7
Boots Properties	c	**72.1**	**–**	**72.1**	68.2	–	68.2
International Retail Development		**(8.5)**	**–**	**(8.5)**	(1.1)	–	(1.1)
Group costs		**(34.9)**	**–**	**(34.9)**	(27.1)	–	(27.1)
		491.7	**8.6**	**500.3**	444.0	12.8	456.8
Discontinued operation							
Childrens World		**0.1**	**–**	**0.1**	(1.4)	–	(1.4)
		491.8	**8.6**	**500.4**	442.6	12.8	455.4

a The Do It All result for the year to 31st March 1997 includes 50% of Do It All's loss up to 14th June 1996 and 100% after this date. The result for 1996 reflects a 50% interest in Do It All.

b Acquisitions contributed £1.5m profit to the result of Boots Healthcare International in the current year.

c Boots Properties' results include development profits of £Nil (1996 £1.8m).

(iv) Operating profit by geographical origin	Before exceptional items 1997 £m	Exceptional items (note 3) 1997 £m	Total 1997 £m	Before exceptional items 1996 £m	Exceptional items (note 3) 1996 £m	Total 1996 £m
Continuing operations						
UK	**525.0**	**9.3**	**534.3**	464.3	12.8	477.1
Rest of Europe	**(5.0)**	**(0.7)**	**(5.7)**	(1.0)	–	(1.0)
Rest of World	**6.6**	**–**	**6.6**	7.8	–	7.8
Group costs	**(34.9)**	**–**	**(34.9)**	(27.1)	–	(27.1)
	491.7	**8.6**	**500.3**	444.0	12.8	456.8
Discontinued operation						
UK	**0.1**	**–**	**0.1**	(1.4)	–	(1.4)
	491.8	**8.6**	**500.4**	442.6	12.8	455.4

1 Segmental information continued

(v) Net assets by business segment	1997 £m	1996 £m
Continuing operations		
Boots The Chemists	**535.9**	512.7
Halfords	**103.6**	98.7
Boots Opticians	**45.4**	38.1
A G Stanley	**38.1**	43.6
Do It All	**103.0**	32.9
Boots Healthcare International	**91.5**	68.4
Boots Contract Manufacturing	**171.9**	148.2
Boots Properties	**1,015.7**	923.6
International Retail Development	**(1.4)**	–
	2,103.7	1,866.2
Discontinued operation		
Childrens World	**–**	42.9
Net operating assets	**2,103.7**	1,909.1
Unallocated net (liabilities)/assets	**(482.2)**	292.4
	1,621.5	2,201.5

Net operating assets include intangible and tangible fixed assets, fixed asset investments, stocks, third party debtors and creditors and inter-segmental trading balances. Unallocated net (liabilities)/assets include all current taxation balances, dividend creditors, net funds and provisions for liabilities and charges.

(vi) Net operating assets by geographical segment	1997 £m	1996 £m
Continuing operations		
UK	**2,054.4**	1,822.5
Rest of Europe	**21.6**	22.9
Rest of World	**27.7**	20.8
	2,103.7	1,866.2
Discontinued operation		
UK	**–**	42.9
	2,103.7	1,909.1

2 Operating profit

	Continuing operations 1997 £m	Discontinued operation 1997 £m	Total 1997 £m	Continuing operations 1996 £m	Discontinued operation 1996 £m	Total 1996 £m
Turnover	**4,565.1**	**12.9**	**4,578.0**	4,010.4	114.3	4,124.7
Cost of sales	**(2,414.5)**	**(8.0)**	**(2,422.5)**	(2,161.1)	(70.9)	(2,232.0)
Gross profit	**2,150.6**	**4.9**	**2,155.5**	1,849.3	43.4	1,892.7
Selling, distribution and store costs	**(1,376.1)**	**(3.8)**	**(1,379.9)**	(1,158.7)	(37.2)	(1,195.9)
Research and development costs	**(20.4)**	**–**	**(20.4)**	(17.0)	–	(17.0)
Administrative expenses	**(253.1)**	**(1.0)**	**(254.1)**	(206.7)	(7.6)	(214.3)
Operating loss of associated undertaking	**(0.7)**	**–**	**(0.7)**	(10.1)	–	(10.1)
Operating profit/(loss)	**500.3**	**0.1**	**500.4**	456.8	(1.4)	455.4

2 **Operating profit continued**

	Continuing operations 1997 £m	Discontinued operation 1997 £m	Total 1997 £m	Continuing operations 1996 £m	Discontinued operation 1996 £m	Total 1996 £m
Exceptional credits/(charges) included in operating profit:						
Cost of sales	**11.1**	**–**	**11.1**	12.8	–	12.8
Administrative expenses	**(2.5)**	**–**	**(2.5)**	–	–	–
	8.6	**–**	**8.6**	12.8	–	12.8
Gross profit before exceptional items	**2,139.5**	**4.9**	**2,144.4**	1,836.5	43.4	1,879.9
Operating profit/(loss) before exceptional items	**491.7**	**0.1**	**491.8**	444.0	(1.4)	442.6

The results of continuing operations in 1997 include the following amounts relating to acquisitions: turnover £273.3m, cost of sales £103.4m, selling, distribution and store costs £157.5m, research and development costs £0.8m, administrative expenses £16.3m.

Total operating profit is after charging:	**£m**	£m
Operating lease rentals		
– Property rents	**185.9**	151.2
– Computer and plant hire	**5.2**	4.4
Depreciation of tangible fixed assets	**110.0**	102.4
Amortisation of intangible fixed assets	**2.4**	2.4
Auditors' remuneration, including £0.3m (1996 £0.2m) for the parent company	**0.9**	0.8

The group auditors and their associates also received £0.5m (1996 £0.5m) in respect of non-audit services in the UK and £0.2m (1996 £0.2m) from overseas subsidiaries.

3 **Exceptional items**

	Notes	Continuing operations 1997 £m	Discontinued operation 1997 £m	Total 1997 £m	Continuing operations 1996 £m
Exceptional operating items:					
Boots Opticians – VAT recoverable	a	**12.7**	**–**	**12.7**	12.8
Boots Healthcare International	b	**(2.3)**	**–**	**(2.3)**	–
Boots Contract Manufacturing	c	**(1.8)**	**–**	**(1.8)**	–
		8.6	**–**	**8.6**	12.8
Profit/(loss) on disposal of fixed assets:					
Profit on disposal of properties		**14.4**	**–**	**14.4**	1.2
Loss on disposal of intangible assets	d	**(3.1)**	**–**	**(3.1)**	–
		11.3	**–**	**11.3**	1.2
Profit on disposal of businesses (note 4)		**–**	**15.0**	**15.0**	0.2
		19.9	**15.0**	**34.9**	14.2
Attributable tax charge (note 6)		**(3.3)**	**–**	**(3.3)**	(3.7)
		16.6	**15.0**	**31.6**	10.5

a VAT recoverable arises from the High Court decision that VAT is not payable on the dispensing of spectacles. The amounts shown above represent VAT recovered from H M Customs & Excise.

b Boots Healthcare International received £3.6m from BASF to bring forward the transfer of products, primarily in Australia and South Africa, following the sale of Boots Pharmaceuticals to BASF in March 1995. These proceeds are being used to offset restructuring costs of the same amount in those areas. In addition, provisions have been made for UK restructuring costs and integration costs associated with the Laboratoires Lutsia and Farmila Dermical acquisitions.

c Provision has been made for the costs of withdrawal from soap manufacturing and restructuring, including additional depreciation of £0.6m.

d Boots Healthcare International sold its Roter brands in The Netherlands for £1.3m on 27th March 1997. The loss on disposal has been calculated after charging goodwill previously set off against reserves of £4.4m.

4 Purchase and disposal of businesses

(i) Acquisitions	Do It All 1997 £m	Lutsia 1997 £m	Others 1997 £m	Total 1997 £m	Total 1996 £m
Tangible fixed assets	**70.7**	**4.8**	**4.3**	**79.8**	8.7
Stocks	**81.7**	**5.2**	**4.2**	**91.1**	2.9
Debtors	**34.2**	**12.0**	**5.3**	**51.5**	2.2
Cash balances/(overdrafts)	**14.5**	**(0.5)**	**1.9**	**15.9**	(2.0)
Investments and deposits	–	–	**0.2**	**0.2**	–
Borrowings and finance leases	**(6.4)**	–	**(3.7)**	**(10.1)**	(1.1)
Other creditors	**(69.1)**	**(10.2)**	**(11.1)**	**(90.4)**	(3.9)
Provisions for liabilities and charges	**(82.6)**	**(0.6)**	**0.1**	**(83.1)**	–
Less: previous share as an associated undertaking	**(32.1)**	–	–	**(32.1)**	–
Fair value of net assets acquired	**10.9**	**10.7**	**1.2**	**22.8**	6.8
Goodwill	**(10.9)**	**107.1**	**28.3**	**124.5**	8.7
Consideration including acquisition costs	–	**117.8**	**29.5**	**147.3**	15.5
Deferred consideration included above	–	–	**0.6**	**0.6**	0.3

All businesses purchased have been accounted for using the acquisition method of accounting.

Do It All

On 14th June 1996, the group acquired the remaining 50% interest in Do It All (DIA) from W H Smith (WHS) for a consideration of £1. Prior to completion, WHS injected £63.5m new share capital into DIA and DIA paid £13.5m to WHS in settlement of an outstanding loan. Following this net cash inflow of £50.0m, DIA had cash balances of £14.5m on acquisition.

In addition, the group loaned WHS £40.0m to be repaid in four equal annual instalments.

Fair value adjustments:	Book values £m	Accounting policy alignments £m	Other adjustments £m	Fair value £m
Tangible fixed assets	82.3	(0.2)	(11.4)	70.7
Stocks	89.8	(8.1)	–	81.7
Debtors	30.0	4.5	(0.3)	34.2
Cash balance	14.5	–	–	14.5
Borrowings and finance leases	(6.4)	–	–	(6.4)
Other creditors	(66.4)	(4.5)	1.8	(69.1)
Provisions for liabilities and charges	(16.1)	2.7	(69.2)	(82.6)
Less: previous share as an associated undertaking	(32.1)	–	–	(32.1)
Net assets	95.6	(5.6)	(79.1)	10.9

Accounting policy alignments reflect the restatement of assets and liabilities in accordance with the policies of the group, primarily the basis of stock valuation. Other adjustments write down the value of fixed assets to their recoverable amount and provide for the costs of onerous contracts mainly in connection with property leases and adjusting for estimated tax benefits.

Loss after tax of DIA prior to acquisition was as follows: from 1st March 1996 up to acquisition on 14th June 1996 £3.6m, for the financial year ended 28th February 1996 £17.4m.

The effect of DIA on the group cash flow statement for the current year was an additional outflow of £40.1m in the post-acquisition period, being cash outflow from operations of £35.8m, interest paid of £1.0m, tax received of £6.2m, capital expenditure of £8.5m and finance lease capital repayments of £1.0m.

Lutsia

On 20th September 1996, Boots Healthcare International acquired a leading French skincare specialist, Laboratoires Lutsia, from Roussel Uclaf for a cash consideration of FF920m (£115m), which included the repayment of inter-company debt of FF50m. There were no significant fair value adjustments.

Profit after tax of Lutsia prior to acquisition was as follows: from 1st January 1996 up to acquisition on 20th September 1996 £0.7m, for the financial year ended 31st December 1995 £2.9m.

The effect of Lutsia on the group cash flow statement for the current year was an additional inflow of £0.1m in the post-acquisition period, being cash inflow from operations of £2.1m, interest paid of £0.3m, capital expenditure of £0.4m and purchase of liquid resources of £1.3m.

Others

On 9th January 1997, Boots Healthcare International also acquired an Italian skincare specialist, Farmila Dermical, for a cash consideration of Lira 10.6 billion (£4.1m).

On 20th March 1997, Boots Contract Manufacturing acquired, for a cash consideration of FF137m (£15.2m), the Roval operations in France and Spain which engage in the manufacture and supply of personal care toiletry products.

In addition, Boots The Chemists acquired a number of pharmacy businesses during the year.

The principal purchase during the year to 31st March 1996 was Boots Contract Manufacturing's acquisition of a cosmetics and toiletries business in both France and Germany.

There were no significant fair value adjustments in respect of any of these acquisitions.

(ii) Disposals	1997 £m	1996 £m
Tangible fixed assets	(30.5)	(3.3)
Stocks	(17.8)	(1.8)
Debtors	(2.2)	(1.1)
(Cash balances)/overdrafts	(2.6)	0.1
Other creditors and provisions	9.3	0.9
Net assets disposed of	(43.8)	(5.2)
Goodwill written back	–	(0.1)
Disposal and other termination costs	(3.7)	(0.4)
Consideration	62.5	5.9
Profit on disposals	15.0	0.2
Deferred consideration included above	–	0.4

Childrens World

The sale of Childrens World to Storehouse PLC was completed on 17th May 1996 for a cash consideration of £62.5m. Childrens World is a discontinued operation and its results for both the current year and prior years have been classified accordingly.

Others

The businesses sold during the year to 31st March 1996 were Boots Contract Manufacturing's Boots Print business and Boots Healthcare International's Kenyan subsidiary. Neither of these disposals were classified as discontinued operations.

(iii) Net cash outflow for acquisitions and disposals	Notes	1997 £m	1996 £m
Purchase of businesses		(146.7)	(15.2)
Cash balances/(overdrafts) acquired with businesses		15.9	(2.0)
Loan to W H Smith		(40.0)	–
Disposal of businesses		62.5	5.5
(Cash balances)/overdrafts sold with businesses		(2.6)	0.1
Deferred consideration in respect of prior year acquisitions and disposals	a	72.8	–
Costs of disposals paid	b	(2.8)	(12.3)
Investment in and loans to associated undertaking		–	(24.5)
Investment by minority interests in subsidiary undertakings		0.5	–
		(40.4)	(48.4)

a The deferred consideration includes the final payment of £73.0m received from BASF for the sale of Boots Pharmaceuticals. This business was sold on 31st March 1995.

b Costs of disposals paid in the prior year include £12.0m relating to the sale of Boots Pharmaceuticals.

5 Interest

	1997 £m	1996 £m
Interest payable and similar charges:		
Bank loans and overdrafts	**(4.5)**	(1.6)
Other loans	**(33.6)**	(37.0)
Finance lease charges	**(1.2)**	(0.3)
Interest capitalised	**5.1**	3.2
Income from interest rate swaps	**16.3**	6.5
	(17.9)	(29.2)
Interest receivable and similar income	**49.2**	71.1
Increase in value of investment in 10.125% bond 2017	**13.6**	12.5
Share of interest of associated undertaking	**(0.5)**	(3.5)
Net interest	**44.4**	50.9

Interest receivable includes £0.2m (1996 £1.6m) from loans to associated undertaking.

6 Tax on profit on ordinary activities

	1997 £m	1996 £m
UK corporation tax	**170.9**	155.4
Deferred taxation	**3.0**	11.5
Relief for overseas taxation	**(1.2)**	(2.5)
Share of taxation of associated undertaking	**(0.4)**	(4.9)
Total UK taxation	**172.3**	159.5
Overseas taxation	**4.8**	7.5
Overseas deferred taxation	**1.2**	0.1
Total	**178.3**	167.1
Tax charge included above attributable to exceptional items:		
Operating items	**2.9**	4.2
Loss on disposal of intangible assets	**0.4**	–
Profit on disposal of businesses	**–**	(0.5)
	3.3	3.7

7 Profit for the financial year attributable to shareholders

Of the profit attributable to shareholders £594.0m (1996 £57.8m) is dealt with in the financial statements of the parent company.

8 Dividends

			1997 £m	1996 £m
First interim	**6.2p**	per share (1996 5.7p)	**56.1**	54.4
Second interim	**44.2p**	per share (1996 Nil p)	**400.5**	–
Final proposed	**14.3p**	per share (1996 12.8p)	**129.5**	122.0
	64.7p	18.5p	**586.1**	176.4

9 Earnings per share

	1997	1996
Earnings per share before exceptional items	**39.5p**	34.7p
Effect of exceptional items	**3.4p**	1.1p
Earnings per share	**42.9p**	35.8p

The calculation of earnings per share is based on 916.7m (1996 951.5m) average ordinary shares in issue, excluding shares held by the Boots ESOP Trust Ltd, weighted on a time basis, and profit for the financial year attributable to shareholders of £393.3m (1996 £340.6m). The fully diluted earnings per share would not be materially different.
Earnings per share before exceptional items is also disclosed to reflect the underlying performance of the group.
This calculation is based on profit for the financial year before exceptional items and related tax of £361.7m (1996 £330.1m).

10 Intangible fixed assets

Patents, trademarks and other product rights acquired	Group £m	Parent £m
Cost		
At 1st April 1996	37.6	7.2
Additions	11.3	1.0
Currency adjustments	(1.9)	–
At 31st March 1997	**47.0**	**8.2**
Amortisation		
At 1st April 1996	11.0	4.6
Amortisation for year	2.4	0.4
Currency adjustments	(0.2)	–
At 31st March 1997	**13.2**	**5.0**
Net book value at 1st April 1996	26.6	2.6
Net book value at 31st March 1997	**33.8**	**3.2**

11 Tangible fixed assets

Group	Land and buildings £m	Plant and machinery £m	Fixtures, fittings, tools and equipment £m	Payments on account and assets in course of construction £m	Total £m
Cost or valuation					
At 1st April 1996	947.9	220.8	1,030.8	81.5	2,281.0
Currency adjustments	(1.3)	(1.2)	(1.0)	–	(3.5)
Additions	31.9	43.6	91.8	59.6	226.9
Purchase of businesses (note 4)	39.3	11.0	29.1	0.4	79.8
Disposals	(31.0)	(14.8)	(26.3)	(0.2)	(72.3)
Disposal of businesses (note 4)	(1.9)	(0.9)	(44.8)	(0.4)	(48.0)
Reclassifications	37.0	25.2	12.7	(74.9)	–
Revaluation surplus	27.1	–	–	–	27.1
Property development transfer	(0.8)	–	–	(3.4)	(4.2)
At 31st March 1997	**1,048.2**	**283.7**	**1,092.3**	**62.6**	**2,486.8**
Gross book value of depreciable assets	211.7	283.7	1,092.3	20.0	1,607.7
Depreciation					
At 1st April 1996	38.6	100.4	517.6	–	656.6
Currency adjustments	(0.2)	(0.4)	(0.5)	–	(1.1)
Depreciation for year	5.1	26.4	78.5	–	110.0
Disposals	(0.5)	(10.2)	(20.2)	–	(30.9)
Disposal of businesses (note 4)	(0.3)	(0.4)	(16.8)	–	(17.5)
Reclassifications	0.1	–	(0.1)	–	–
At 31st March 1997	**42.8**	**115.8**	**558.5**	**–**	**717.1**
Net book value at 1st April 1996	909.3	120.4	513.2	81.5	1,624.4
Net book value at 31st March 1997	**1,005.4**	**167.9**	**533.8**	**62.6**	**1,769.7**

The net book value of plant and machinery includes £17.4m (1996 £7.5m) in respect of assets held under finance leases on which the depreciation charge for the year was £3.1m (1996 £0.7m).
Land and buildings and assets in course of construction include capitalised interest net of taxation of £7.0m (1996 £4.2m).

Land and buildings include investment properties as follows:	£m
Valuation	
At 1st April 1996	179.3
Additions	53.4
Disposals	(10.6)
Reclassification	0.4
Revaluation surplus	27.1
At 31st March 1997	**249.6**

Investment properties were valued on the basis of existing use value at 31st March 1997 by the group's own professionally qualified staff.
In accordance with SSAP19, no depreciation is provided in respect of investment properties. This represents a departure from the Companies Act 1985 requirements to provide for the systematic annual depreciation of fixed assets. However, these properties are held for investment, rather than consumption, and the directors consider that the adoption of the above policy is necessary to give a true and fair view.

11 Tangible fixed assets continued

Parent	Land and buildings £m	Plant and machinery £m	Fixtures, fittings, tools and equipment £m	Payments on account and assets in course of construction £m	Total £m
Cost or valuation					
At 1st April 1996	38.2	164.8	157.9	29.7	390.6
Additions	0.4	28.3	15.5	20.1	64.3
Disposals	(13.2)	(8.0)	(5.0)	(0.1)	(26.3)
Reclassifications and transfers	375.5	24.0	3.4	(38.9)	364.0
At 31st March 1997	**400.9**	**209.1**	**171.8**	**10.8**	**792.6**
Gross book value of depreciable assets	46.0	209.1	171.8	10.8	437.7
Depreciation					
At 1st April 1996	19.5	77.7	88.2	–	185.4
Depreciation for year	0.7	16.2	15.1	–	32.0
Disposals	(0.1)	(5.3)	(3.8)	–	(9.2)
Transfers	–	(0.3)	(0.1)	–	(0.4)
At 31st March 1997	**20.1**	**88.3**	**99.4**	**–**	**207.8**
Net book value at 1st April 1996	18.7	87.1	69.7	29.7	205.2
Net book value at 31st March 1997	**380.8**	**120.8**	**72.4**	**10.8**	**584.8**

The net book value of plant and machinery includes £9.1m (1996 £3.9m) in respect of assets held under finance leases on which the depreciation charge for the year was £1.5m (1996 £0.2m).

Notes	**Group 1997 £m**	Group 1996 £m	**Parent 1997 £m**	Parent 1996 £m
Net book value of land and buildings comprises:				
Freehold	**840.3**	748.4	**353.5**	18.7
Long leasehold (more than 50 years unexpired)	**123.1**	133.7	**27.3**	–
Short leasehold	**42.0**	27.2	**–**	–
	1,005.4	909.3	**380.8**	18.7
Analysis of cost or valuation:				
Cost	**1,597.7**	1,444.5	**788.3**	384.7
Valuation of properties – Directors 1993	**632.8**	648.9	**–**	–
– Independent 1989	**0.7**	0.7	**–**	–
– Independent 1965	**0.4**	0.4	**–**	–
– Independent 1958	**5.6**	7.2	**4.3**	5.9
Investment properties – Directors 1997	**249.6**	179.3	**–**	–
	2,486.8	2,281.0	**792.6**	390.6
Net book value of tangible fixed assets under the historical cost convention	**1,419.3**	1,304.2	**584.4**	204.8

The valuations are on an open market basis for existing use.

12 Fixed asset investments

Group	Associated undertaking Equity £m	Loans £m	Total investment £m	Own shares £m	Total £m
At 1st April 1996	32.9	13.5	46.4	–	46.4
Additions	–	–	–	0.7	0.7
Loss for the year	(0.8)	–	(0.8)	–	(0.8)
Transfer to subsidiary undertaking	(32.1)	(13.5)	(45.6)	–	(45.6)
Amortisation of own shares	–	–	–	(0.2)	(0.2)
At 31st March 1997	**–**	**–**	**–**	**0.5**	**0.5**

Parent	Shares in subsidiary undertakings £m	Loans to subsidiary undertakings £m	Shares in associated undertaking £m	Loans to associated undertaking £m	Own shares £m	Total £m
Cost						
At 1st April 1996	969.2	55.1	157.3	13.5	–	1,195.1
Additions	26.6	22.4	–	–	0.7	49.7
Transfer to subsidiary undertaking	157.3	13.5	(157.3)	(13.5)	–	–
Disposals and repayments	(79.3)	(16.9)	–	–	–	(96.2)
Amortisation of own shares	–	–	–	–	(0.2)	(0.2)
Currency adjustments	–	(2.3)	–	–	–	(2.3)
At 31st March 1997	**1,073.8**	**71.8**	**–**	**–**	**0.5**	**1,146.1**
Provision						
At 1st April 1996	103.7	1.9	127.3	–	–	232.9
Transfer to subsidiary undertaking	127.3	–	(127.3)	–	–	–
Movement	(31.3)	0.2	–	–	–	(31.1)
At 31st March 1997	**199.7**	**2.1**	**–**	**–**	**–**	**201.8**
Net book value at 1st April 1996	865.5	53.2	30.0	13.5	–	962.2
Net book value at 31st March 1997	**874.1**	**69.7**	**–**	**–**	**0.5**	**944.3**

The principal subsidiary undertakings are listed on page 75.

Own shares

During the year, the company established the Boots ESOP Trust Ltd, an employee share ownership trust. The purpose of the trust is to hold shares in the company which may subsequently be transferred to executive directors and senior employees under The Boots Long Term Bonus Scheme (see page 42) and The Boots Restricted Share Co-Investment Scheme. Under this latter scheme, participating senior employees purchase shares in the company using up to 50% of their annual bonus earned during the previous year and are granted a potential entitlement to receive a number of further shares equivalent to twice the pre-tax value of the sum invested. The employees entitlement to receive the shares at the end of a specified performance period depends on the company's total shareholder return, compared to a peer group of companies, over that period. At 31st March 1997, the trust held 116,209 shares in the company with a market value of £0.8m. Dividends have been waived by the trust. The shares were purchased to service Co-Investment Scheme awards and their cost, £0.7m, is being charged to the profit and loss account over the relevant performance period. Costs of administering the trust are charged to the profit and loss account.

13 Stocks

	Group 1997 £m	Group 1996 £m	**Parent 1997 £m**	Parent 1996 £m
Manufacturing:				
Raw materials	**24.8**	18.5	**16.9**	14.6
Work in progress	**10.3**	10.7	**9.1**	8.3
Finished goods	**50.6**	37.5	**32.1**	26.0
	85.7	66.7	**58.1**	48.9
Retailing	**543.6**	449.8	**128.0**	119.5
Property development	**38.0**	5.6	**–**	–
	667.3	522.1	**186.1**	168.4

14 Debtors

	Group 1997 £m	Group 1996 £m	Parent 1997 £m	Parent 1996 £m
Falling due within one year:				
Trade debtors	**208.8**	181.1	**26.8**	22.5
Owed by subsidiary undertakings	**–**	–	**418.3**	589.5
Owed by associated undertaking	**–**	0.1	**–**	0.1
Other debtors	**32.5**	110.5	**66.8**	95.4
Prepayments and accrued income	**69.6**	61.7	**21.5**	23.1
Corporation tax	**2.2**	5.5	**–**	4.7
Advance corporation tax	**34.1**	–	**12.3**	–
	347.2	358.9	**545.7**	735.3
Falling due after more than one year:				
Owed by subsidiary undertakings	**–**	–	**155.9**	161.4
Other debtors	**33.1**	2.2	**37.9**	24.6
Advance corporation tax	**100.1**	–	**100.1**	–
	133.2	2.2	**293.9**	186.0
	480.4	361.1	**839.6**	921.3

15 Current asset investments and deposits

	Group 1997 £m	Group 1996 £m	Parent 1997 £m	Parent 1996 £m
Listed investments	**0.1**	199.8	**–**	199.7
Short term deposits	**592.1**	683.1	**573.2**	657.9
Certificates of tax deposit	**10.8**	11.0	**10.8**	11.0
	603.0	893.9	**584.0**	868.6
Market value of investments	**0.1**	202.8	**–**	202.7

16 Creditors: Amounts falling due within one year

	Group 1997 £m	Group 1996 £m	Parent 1997 £m	Parent 1996 £m
Borrowings (note 18)	**167.9**	274.8	**31.9**	778.1
Trade creditors	**331.1**	269.6	**229.3**	197.1
Bills of exchange	**4.5**	0.3	**0.1**	0.3
Due to subsidiary undertakings	**–**	–	**46.0**	45.2
Corporation tax	**135.8**	128.2	**26.9**	23.0
Advance corporation tax	**156.0**	42.7	**102.0**	–
Taxation and social security (including VAT and other sales taxes)	**32.8**	60.9	**12.3**	18.8
Other creditors	**127.5**	103.7	**47.9**	38.2
Accruals and deferred income	**111.6**	89.9	**49.4**	41.4
Dividends (note 8)	**530.0**	122.0	**530.0**	122.0
	1,597.2	1,092.1	**1,075.8**	1,264.1

17 Creditors: Amounts falling due after more than one year

	Group 1997 £m	Group 1996 £m	Parent 1997 £m	Parent 1996 £m
Borrowings (note 18)	**236.5**	108.2	**401.3**	260.1
Due to subsidiary undertakings	**–**	–	**736.4**	272.5
Other creditors	**2.7**	3.0	**0.3**	0.5
Accruals and deferred income	**35.7**	39.3	**24.5**	29.4
	274.9	150.5	**1,162.5**	562.5

The only creditors falling due after more than five years are included in borrowings, details of which are shown in note 18.

18 Borrowings

	Notes	Group 1997 £m	Group 1996 £m	Parent 1997 £m	Parent 1996 £m
Bank loans and overdrafts repayable on demand		**112.9**	126.5	**–**	645.2
Other bank loans and overdrafts	a	**155.5**	0.6	**148.2**	–
Variable rate notes	b	**16.1**	19.6	**16.1**	19.6
US$175m 9% bond 1997	c	**–**	114.4	**–**	114.4
10.125% bond 2017	d	**97.4**	111.0	**253.7**	251.4
Net liability under currency swaps	e	**7.0**	3.9	**7.0**	3.9
Obligations under finance leases		**15.5**	7.0	**8.2**	3.7
		404.4	383.0	**433.2**	1,038.2
Amounts included above repayable by instalments		**261.1**	118.2	**156.4**	3.8
Repayments fall due as follows:					
Within one year:					
– Bank loans and overdrafts		**114.2**	127.1	**–**	645.2
– Other borrowings		**53.7**	147.7	**31.9**	132.9
		167.9	274.8	**31.9**	778.1
After more than one year:					
– Within one to two years		**35.3**	22.5	**14.6**	6.8
– Within two to five years		**105.6**	58.0	**43.2**	1.9
– After five years		**95.6**	27.7	**343.5**	251.4
		236.5	108.2	**401.3**	260.1
		404.4	383.0	**433.2**	1,038.2

a Other bank loans and overdrafts include the factoring of certain rental commitments of £148.2m (1996 £Nil) over a ten year period, £95m of which was swapped into a floating rate of interest.
b Variable rate notes are repayable at the option of the holders.
c The US$175m 9% bond 1997 was repaid on 3rd January 1997.
d A subsidiary, Boots Investments Limited, owns all the £250m 10.125% bond 2017 of The Boots Company PLC, together with all the outstanding interest coupons other than those maturing on or before 24th June 2002. The parent company has entered into an agreement with Boots Investments Limited to redeem the bond on 25th June 2002 for an amount of £275m. The group balance sheet consolidates the borrowing by the parent company with the present value of the investment held by the subsidiary.
e The group has a number of US dollar currency swaps, which are equivalent to borrowing US dollars and depositing sterling for a fixed period. Following the disposal of Boots Pharmaceuticals on 31st March 1995, the group put in place a series of matching swaps, which are equivalent to depositing US dollars and borrowing sterling. The net liability shown above represents the effect of translating the above transactions into sterling at the year end exchange rate.
f The group has a number of interest rate swap agreements which convert fixed rate liabilities to floating rate. The fixed rate commitments effectively converted are £85m of the 10.125% bond, £675m of operating leases and £95m referred to in note a above.
g All borrowings are unsecured.

19 Provisions for liabilities and charges

Group	Deferred taxation £m	Acquisition provisions £m	Disposal provisions £m	Total £m
At 1st April 1996	26.1	–	19.6	45.7
Profit and loss account	4.2	0.7	3.7	8.6
Purchase of businesses (see note 4)	(14.5)	97.6	–	83.1
Utilised	–	(40.8)	(4.4)	(45.2)
Currency adjustments	–	(0.2)	–	(0.2)
At 31st March 1997	**15.8**	**57.3**	**18.9**	**92.0**

Disposal provisions created during the year relate to the sale of Childrens World.
The majority of the disposal provisions at 31st March 1997 relate to the sale of Boots Pharmaceuticals in March 1995 and include amounts in respect of possible environmental liabilities arising from former involvement in an agro-chemical joint venture in the US.

Parent	Deferred taxation £m	Disposal provisions £m	Total £m
At 1st April 1996	5.9	9.9	15.8
Profit and loss account	(2.3)	3.7	1.4
Utilised	–	(4.4)	(4.4)
At 31st March 1997	**3.6**	**9.2**	**12.8**

	Group 1997 £m	Group 1996 £m	**Parent 1997 £m**	Parent 1996 £m
Analysis of deferred taxation provision:				
Accelerated capital allowances	**12.5**	10.7	**–**	0.8
Other items	**3.3**	15.4	**3.6**	5.1
	15.8	26.1	**3.6**	5.9
Unprovided deferred taxation:				
Accelerated capital allowances	**72.5**	68.9	**27.0**	23.0
Other items	**(1.3)**	(2.4)	**(1.0)**	–
	71.2	66.5	**26.0**	23.0

It is not anticipated that any significant taxation will become payable on the revaluation surplus, as taxation on gains on properties used for the purposes of the group's trade is expected to be deferred indefinitely.

20 Capital and reserves

Group	Called up share capital £m	Share premium account £m	Revaluation reserve £m	Capital redemption reserve £m	Profit and loss account £m	Total £m
At 1st April 1996	238.4	226.9	321.4	24.0	1,390.8	2,201.5
Loss retained	–	–	0.3	–	(192.8)	(192.5)
Movement in goodwill (see below)	–	–	–	–	(120.1)	(120.1)
Revaluation surplus	–	–	27.1	–	–	27.1
Revaluation deficit realised on disposals	–	–	3.1	–	(3.1)	–
Issue of shares	0.6	7.2	–	–	–	7.8
Share issue expenses	–	(0.1)	–	–	–	(0.1)
Repurchase of shares (note 21)	(12.8)	–	–	12.8	(300.0)	(300.0)
Scrip dividends	0.3	(0.3)	–	–	8.3	8.3
Currency adjustments	–	–	–	–	(10.4)	(10.4)
At 31st March 1997	**226.5**	**233.7**	**351.9**	**36.8**	**772.7**	**1,621.6**

The revaluation reserve includes £69.2m (1996 £42.5m) relating to investment properties.

Goodwill set off against reserves in respect of businesses still within the group is as follows:	£m
At 1st April 1996	906.8
Goodwill purchased (note 4)	124.5
Goodwill released on disposal of businesses and intangible fixed assets	(4.4)
At 31st March 1997	**1,026.9**

Parent	Called up share capital £m	Share premium account £m	Capital redemption reserve £m	Profit and loss account £m	Total £m
At 1st April 1996	238.4	226.9	24.0	796.7	1,286.0
Profit retained	–	–	–	7.9	7.9
Issue of shares	0.6	7.2	–	–	7.8
Share issue expenses	–	(0.1)	–	–	(0.1)
Repurchase of shares	(12.8)	–	12.8	(300.0)	(300.0)
Scrip dividends	0.3	(0.3)	–	8.3	8.3
At 31st March 1997	**226.5**	**233.7**	**36.8**	**512.9**	**1,009.9**

21 Share capital

	Number of shares 1997 million	Number of shares 1996 million	1997 £m	1996 £m
Ordinary shares of 25p each:				
Authorised	**1,200.0**	1,200.0	**300.0**	300.0
Allotted, called up and fully paid	**906.1**	953.8	**226.5**	238.4

Shares allotted/(repurchased) during the year	Number million	Nominal value £m	Consideration £m
Scrip dividends	1.4	0.3	–
Option schemes	2.3	0.6	7.8
Repurchase of shares	(51.4)	(12.8)	(297.9)
	(47.7)	(11.9)	(290.1)

During the year approximately 24% of shareholders owning 4.8% of shares elected to take all or part of their dividends in shares at a value of £8.3m. The nominal value of the shares issued has been funded out of the share premium account and the amount of the dividend has been added back to the profit and loss reserve.
On 27th June 1996, the company purchased, and subsequently cancelled, 51.4m ordinary shares at a price of 580p per share. The total cost of the purchase including expenses was £300.0m, which has been charged against distributable reserves.

Share options
Under a savings-related scheme, options may be granted enabling employees to subscribe for ordinary shares at approximately 80% of market price. At 31st March 1997, options exercisable from 1997 to 2004 at between 206p and 485p per share were outstanding in respect of 12,819,589 shares.
Under an executive share option scheme, certain senior executives were granted options to subscribe for ordinary shares after a period of three years from date of grant.
At 31st March 1997, such options were outstanding as follows:

Number of shares	Option price	Exercisable from 4th June 1997 or later where shown	to
55,000	257p	–	December 1999
125,000	286p	–	July 2000
35,000	339p	–	December 2000
317,500	399p	–	July 2001
28,000	420p	–	December 2001
300,000	437p	–	August 2002
440,000	438p	–	June 2003
27,500	523p	–	November 2003
610,000	531p	June 1997*	June 2004
127,500	519p	November 1997	November 2004
192,500	482p	February 1998	February 2005

Executive directors have agreed to exercise all their existing executive share options, which are included above and listed on page 44, by 31st March 1998.

*Exercisable on or after 23rd June 1997.

22 Detailed analysis of gross cash flows

	1997 £m	1996 £m
Exceptional operating cash flows:		
VAT recovered from H M Customs & Excise	**12.7**	12.8
Expenditure on terminating onerous contracts at Do It All	**(35.1)**	–
Restructuring and integration costs paid	**(0.7)**	–
Cash flows relating to prior year disposals	**(1.7)**	–
	(24.8)	12.8
Returns on investment and servicing of finance:		
Interest received	**74.4**	55.8
Interest paid	**(35.3)**	(39.6)
	39.1	16.2
Capital expenditure and financial investment:		
Purchase of fixed assets	**(222.8)**	(225.1)
Disposal of fixed assets	**53.9**	27.8
Purchase of own shares	**(0.7)**	–
	(169.6)	(197.3)
Management of liquid resources:		
Sale/(purchase) of index linked treasury stock	**199.7**	(199.7)
Decrease in other current asset investments and deposits	**88.8**	322.5
	288.5	122.8
Financing:		
Capital element of finance lease rental agreements	**(2.9)**	(1.0)
Factored rental commitments	**148.2**	–
Redemption of US$175m 9% bond 1997	**(107.2)**	–
Decrease in other borrowings	**(4.0)**	(133.5)
Cash inflow/(outflow) from change in borrowings and lease financing	**34.1**	(134.5)
Issue of ordinary share capital	**7.8**	9.1
Repurchase of shares (see note 21)	**(300.0)**	–
	(258.1)	(125.4)

23 Analysis of net funds

	As at 1st April 1996 £m	Cash flow £m	Acquisitions £m	Other non-cash changes £m	Currency £m	**As at 31st March 1997 £m**
Cash at bank and in hand	15.3	17.4	–	–	(1.8)	**30.9**
Bank loans and overdrafts repayable on demand	(126.5)	13.0	–	–	0.6	**(112.9)**
Cash	(111.2)	30.4	–	–	(1.2)	**(82.0)**
Liquid resources	893.9	(288.5)	0.2	(0.3)	(2.3)	**603.0**
Obligations under finance leases	(7.0)	2.9	(2.8)	(8.7)	0.1	**(15.5)**
Other borrowings	(249.5)	(37.0)	(7.3)	10.5	7.3	**(276.0)**
Total	526.2	(292.2)	(9.9)	1.5	3.9	**229.5**

Liquid resources comprise listed investments, short term deposits and certificates of tax deposit (see note 15).

24 Commitments and contingent liabilities

(i) Future capital expenditure approved by the directors and not provided for in these financial statements is as follows:

	Group 1997 £m	Group 1996 £m	Parent 1997 £m	Parent 1996 £m
Contracts placed	**71.1**	103.7	**18.8**	25.2

(ii) Annual commitments under operating leases at 31st March 1997 are as follows:

	Group Land and buildings £m	Group Other £m	Parent Land and buildings £m
Expiring:			
Within one year	**3.8**	**0.8**	**0.2**
Over one year and less than five years	**15.6**	**3.1**	**5.8**
Over five years	**203.7**	**–**	**8.1**
	223.1	**3.9**	**14.1**

25 Pensions

The group operates pension schemes throughout the world, most of which are final salary (defined benefit) schemes, and are fully funded.

The principal UK pension scheme is Boots Pension Scheme. The actuaries to this scheme, Bacon & Woodrow, carried out their latest valuation of the scheme as at 1st April 1995. The results of the valuation showed that the actuarial value of the assets represented 113% of the actuarial value of the accrued benefits. The accrued benefits valued include all benefits for pensioners and other former members as well as benefits based on service to the valuation date for active members, allowing for future pay increases. The surplus in the scheme is the net result of surpluses carried forward from the two previous valuations as at 1st April 1989 and 1st April 1992 and a deficit arising in respect of the three years ending 1st April 1995. At 1st April 1992 the ratio of the actuarial value of the assets to the value of the accrued benefits was 131%. The reduction in this ratio to 113% is mainly due to the temporary suspension of employer contributions to the scheme.

The pension charge shown in the financial statements for the year was £4m (1996 £4m). This charge arises as a result of the regular cost of pensions being substantially reduced by amortisation of the surpluses disclosed by the 1989 and 1992 valuations and increased by the amortisation of the deficit in respect of the three years ending 1st April 1995. The surpluses and deficits are being recognised over the expected average remaining service life of members at the date of the valuations. The remaining amortisation period of the surpluses disclosed at the 1989 and 1992 valuations are approximately five and nine years respectively. The deficit disclosed at the April 1995 valuation is being recognised over approximately 13 years from that date. Included within other creditors is a pension provision of £8m (1996 £4m).

The projected unit method was used both in assessing pension costs for accounting purposes and for funding the scheme. The assumed rate of investment return was 2½% per annum above the assumed rate of pay increases, 4% per annum above the assumed rate of pension increases and 4½% per annum above the assumed rate of dividend increases. Members retiring are assumed to be replaced by new entrants so that the average age of the membership remains constant. The market value of the scheme's assets was £1,372m at 1st April 1995.

In common with other companies, additional pension arrangements are being made for those more recently recruited senior executives whose benefits, relative to long serving staff, are subject to statutory restrictions.

26 Staff numbers and costs

The average number of persons employed by the group during the year was as follows:	1997	1996
Continuing operations		
Boots The Chemists	**54,747**	53,384
Halfords	**9,330**	9,241
Boots Opticians	**3,631**	3,235
A G Stanley	**2,432**	2,509
Do It All	**4,061**	–
Boots Healthcare International	**1,779**	1,737
Boots Contract Manufacturing	**3,854**	3,739
Boots Properties	**88**	84
International Retail Development	**27**	–
Central	**1,017**	1,001
	80,966	74,930
Discontinued operation		
Childrens World	**294**	2,545
Total employees	**81,260**	77,475

Total number of persons employed by the group at 31st March 1997 was 82,520 (1996 77,686).

The aggregate payroll cost was as follows:	£m	£m
Wages and salaries	**799.4**	711.2
Social security costs	**59.4**	50.8
Other pension costs	**5.6**	5.5
	864.4	767.5
Analysed as:		
Continuing operations	**862.6**	752.2
Discontinued operation	**1.8**	15.3
	864.4	767.5

27 Remuneration of directors and directors' shareholdings

Details of the remuneration, shareholdings and share options are included in the Board Remuneration Committee's Report on pages 40 to 45.

28 Related party disclosures

The group had no material transactions with related parties during the year.

Principal Companies

	Percentage held by parent	Percentage held by subsidiary undertakings	Country of incorporation where operating overseas	Principal activities
Parent				
The Boots Company PLC				Manufacturing, marketing and distribution of healthcare and consumer products
Subsidiary undertakings (incorporated in Great Britain)				
A G Stanley Ltd.		100		Retailing of decorative products and interior furnishings
BCM Ltd.	100			Manufacturing pharmaceuticals and consumer products
Boots Development Properties Ltd.		100		Property development
Boots Healthcare International Ltd.	100			Marketing consumer products
Boots Opticians Ltd.		100		Registered opticians
Boots Properties PLC	100			Property holding
Boots The Chemists Ltd.	100			Retail chemists
Crookes Healthcare Ltd.	100			Marketing consumer products
Do It All Ltd.	100			DIY retailer
Halfords Ltd.	100			Retailing of auto parts, accessories, bicycles and car servicing
Optrex Ltd.	100			Marketing consumer products
Subsidiary undertakings (incorporated overseas)				Activities refer to healthcare and/or consumer products unless otherwise indicated
The Boots Company (Australia) Pty. Ltd.	100		Australia	Marketing
Boots Healthcare SA NV		100	Belgium	Marketing
Boots Healthcare SA		100	France	Marketing
BCM Cosmetique SA	100		France	Manufacturing and marketing
Laboratoires Lutsia SA		100	France	Manufacturing and marketing
Roval SA		100	France	Manufacturing
BCM Kosmetik GmbH	100		Germany	Manufacturing and marketing
Mountgrave Insurance Ltd.	100		Guernsey	Insurance company
Boots (Retail Buying) Ltd.	100		Hong Kong	Buying
Boots Healthcare Ltd.		100	Ireland	Marketing
Boots Healthcare Marco Viti Farmaceutici S.p.A.	100		Italy	Manufacturing and marketing
Boots Investments Ltd.	100		Jersey	Investment company
Boots Trading (Malaysia) Sdn. Bhd.	100		Malaysia	Marketing
Boots Healthcare BV		100	Netherlands	Marketing
The Boots Company (New Zealand) Ltd.	100		New Zealand	Marketing
The Boots Company (Philippines) Inc	100		Philippines	Marketing
The Boots Company (Far East) Pte. Ltd.	100		Singapore	Marketing
The Boots Company (South Africa) (Pty.) Ltd.	100		South Africa	Manufacturing and marketing
Boots Healthcare S.A.	100		Spain	Marketing
The Boots Company (Thailand) Ltd.	100		Thailand	Marketing
Boots Retail (Thailand) Ltd.	49	2	Thailand	Retail

All percentages relate to holdings of ordinary share capital.
All companies operate principally in the country of incorporation.

Profit and loss account	1997 £m	1996 £m	1995 £m	1994 £m	1993 £m
Turnover	**4,578.0**	4,124.7	4,308.1	4,167.1	3,962.1
Operating profit before exceptional items	**491.8**	442.6	520.2	487.9	426.5
Operating exceptional items	**8.6**	12.8	2.8	(73.8)	(3.0)
Operating profit	**500.4**	455.4	523.0	414.1	423.5
Other exceptional items	**26.3**	1.4	321.3	5.3	0.5
Profit on ordinary activities before interest	**526.7**	456.8	844.3	419.4	424.0
Net interest	**44.4**	50.9	5.4	(3.1)	(19.6)
Profit on ordinary activities before taxation	**571.1**	507.7	849.7	416.3	404.4
Taxation	**(178.3)**	(167.1)	(185.8)	(126.3)	(124.4)
Profit on ordinary activities after taxation	**392.8**	340.6	663.9	290.0	280.0
Minority interests	**0.5**	–	(4.7)	(1.7)	(1.7)
Profit attributable to shareholders	**393.3**	340.6	659.2	288.3	278.3
Dividends	**(586.1)**	(176.4)	(166.4)	(156.0)	(139.0)
(Loss)/profit retained	**(192.8)**	164.2	492.8	132.3	139.3

Total recognised gains and losses

Profit attributable to shareholders	**393.3**	340.6	659.2	288.3	278.3
Surplus/(deficit) on revaluation of properties	**27.1**	16.0	6.6	16.8	(223.2)
Currency translation differences	**(10.4)**	3.3	(18.5)	1.7	34.5
Other net gains/(losses)	**0.3**	–	0.2	0.7	(0.5)
Recognised gains and losses for the year	**410.3**	359.9	647.5	307.5	89.1

Movements in shareholders' funds

Recognised gains and losses for the year	**410.3**	359.9	647.5	307.5	89.1
Dividends	**(586.1)**	(176.4)	(166.4)	(156.0)	(139.0)
New share capital subscribed	**7.7**	9.1	15.4	9.3	126.2
Repurchase of shares	**(300.0)**	–	(511.3)	–	–
Goodwill purchased	**(124.5)**	(8.7)	(3.9)	(7.1)	(1.4)
Goodwill released on disposal of businesses	**4.4**	0.1	383.4	0.4	–
Scrip dividends	**8.3**	10.6	–	–	–
Currency adjustment on goodwill	**–**	–	33.6	(23.7)	(29.0)
(Decrease)/increase in shareholders' funds	**(579.9)**	194.6	398.3	130.4	45.9

Balance sheet	1997 £m	1996 £m	1995 £m	1994 £m	1993 £m
Fixed assets	**1,803.5**	1,651.0	1,526.7	1,525.3	1,459.8
Investments	**0.5**	46.4	30.6	57.1	70.8
Net current assets	**184.4**	700.3	761.9	378.5	375.4
Other creditors	**(274.9)**	(150.5)	(264.7)	(315.9)	(393.3)
Provisions for liabilities and charges	**(92.0)**	(45.7)	(47.6)	(29.1)	(27.9)
Net assets	**1,621.5**	2,201.5	2,006.9	1,615.9	1,484.8
Represented by:					
Shareholders' funds	**1,621.6**	2,201.5	2,006.9	1,608.6	1,478.2
Minority interests	**(0.1)**	–	–	7.3	6.6
	1,621.5	2,201.5	2,006.9	1,615.9	1,484.8

Cash flow statement	1997	1996	1995	1994	1993
Cash inflow from operating activities	**515.1**	536.5	642.3	635.9	549.6
Returns on investment and servicing of finance	**39.1**	16.2	7.4	(0.7)	(24.3)
Taxation	**(174.4)**	(152.7)	(139.5)	(108.6)	(100.3)
Capital expenditure and financial investment	**(169.6)**	(197.3)	(231.0)	(188.6)	(148.4)
Acquisitions and disposals	**(40.4)**	(48.4)	884.2	(6.6)	(14.2)
Equity dividends paid	**(169.8)**	(154.4)	(151.5)	(46.9)	(214.5)
Cash flow before use of liquid resources and financing	**–**	(0.1)	1,011.9	284.5	47.9
Management of liquid resources	**288.5**	122.8	(621.2)	(114.5)	(164.7)
Financing	**(258.1)**	(125.4)	(382.8)	(144.5)	71.3
Increase/(decrease) in cash	**30.4**	(2.7)	7.9	25.5	(45.5)

Statistics	1997	1996	1995	1994	1993
Sales growth from continuing operations	**13.8%**	5.8%	3.4%	5.2%	8.2%
Return on shareholders' funds	**17.8%**	17.0%	41.3%	19.6%	19.5%
Earnings per share	**42.9p**	35.8p	65.7p	27.7p	26.9p
Earnings per share before exceptional items	**39.5p**	34.7p	36.0p	33.0p	27.1p
Net funds/(debt)	**229.5**	526.2	517.2	69.0	(203.8)
Capital expenditure	**226.9**	239.7	249.8	224.0	169.0

Return on shareholders' funds is calculated as profit on ordinary activities after taxation as a percentage of opening shareholders' funds.

Shareholder value	1997	1996	1995	1994	1993
Dividend per share	**64.7p**	18.5p	17.0p	15.0p	13.4p
Dividend cover	**0.7**	1.9	4.0	1.8	2.0
Share price:					
Highest	**701p**	627p	582p	605p	561p
Lowest	**555p**	500p	458p	417p	403p

	1997 £m	1996 £m	1995 £m	1994 £m	1993 £m
Turnover, including inter-segmental turnover:					
Boots The Chemists	**3,313.5**	3,107.6	2,943.8	2,808.0	2,663.9
Halfords	**412.8**	390.5	377.9	357.0	327.2
Boots Opticians	**148.1**	132.3	119.1	102.1	93.9
A G Stanley	**109.4**	104.9	114.6	111.6	111.6
Do It All – subsidiary undertaking	**254.6**	–	–	–	–
– associated undertaking	**46.8**	170.7	185.3	194.2	200.2
Boots Healthcare International	**243.4**	206.7	203.5	227.7	210.9
Boots Contract Manufacturing	**259.5**	239.4	216.0	208.8	195.2
Boots Properties – Development	**0.5**	7.0	5.6	20.7	1.1
– Investment	**101.6**	95.9	92.4	87.7	82.9
Operating profit before operating exceptional items:					
Boots The Chemists	**426.5**	384.8	349.7	323.9	284.4
Halfords	**26.8**	22.1	20.5	14.5	4.5
Boots Opticians	**13.8**	10.9	8.3	6.7	6.6
A G Stanley	**(11.8)**	(12.2)	(8.5)	(1.2)	2.8
Do It All – subsidary undertaking	**(6.2)**	–	–	–	–
– associated undertaking	**(0.7)**	(10.1)	(6.3)	(10.6)	(11.3)
Boots Healthcare International	**(6.6)**	(8.2)	9.8	21.3	15.9
Boots Contract Manufacturing	**21.2**	16.7	17.8	16.2	13.1
Boots Properties – Development	**–**	1.8	1.7	5.8	(2.3)
– Investment	**72.1**	66.4	65.1	61.3	56.6
International Retail Development	**(8.5)**	(1.1)	–	–	–
Capital expenditure:					
Boots The Chemists	**88.3**	86.1	81.6	91.9	63.2
Halfords	**12.3**	14.5	16.7	10.6	7.7
Boots Opticians	**8.9**	11.2	18.8	12.5	4.6
A G Stanley	**2.3**	4.0	8.8	9.7	6.8
Do It All – subsidiary undertaking	**7.5**	–	–	–	–
Boots Healthcare International	**11.0**	12.5	5.7	3.4	5.1
Boots Contract Manufacturing	**31.4**	29.5	22.2	18.8	18.5
Boots Properties	**63.8**	75.1	73.6	54.1	36.7
International Retail Development	**1.1**	–	–	–	–

Annual general meeting
The annual general meeting will be held at 11.00 am on Thursday, 24th July 1997 at the Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London. Each shareholder is entitled to attend and vote at the meeting, the arrangements for which are described in the accompanying notice.

Dividend payments
The proposed final dividend (if approved) will be paid on 22nd August 1997 to shareholders registered on 20th June 1997. Shareholders will again have the opportunity to receive their dividend in shares instead of cash, subject to the passing of the appropriate resolution at the annual general meeting. Details will be posted to shareholders on 2nd July 1997.
All forms of election or instructions for revocation of existing mandates must be received by the company's registrars by 5.00 pm on 23rd July 1997.

The expected dividend payment dates for the year to 31st March 1998 are:

Interim dividend	February 1998
Final dividend	August 1998

Results
For the year to 31st March 1998:

Interim results announced	November 1997
Interim statement circulated	November 1997
Preliminary announcement of full year results	June 1998
Annual report circulated	June 1998

Capital gains tax
For capital gains tax purposes, the market price of the company's ordinary shares of 25p each on 31st March 1982 was 112.5p.

Low cost share dealing services
Details of special low cost dealing services in the company's shares may be obtained from:
- **Hoare Govett Corporate Finance Limited** (telephone 0171 601 0101) Hoare Govett is regulated by the Securities and Futures Authority.
- **National Westminster Bank Plc** (telephone 0171 895 5448) National Westminster Bank Plc is regulated by the Personal Investment Authority and IMRO. Share dealing services are provided by NatWest Stockbrokers Limited, which is a member of the London Stock Exchange and regulated by the Securities and Futures Authority.

Both Hoare Govett and National Westminster Bank Plc have approved the references to them for the purposes of section 57 of the Financial Services Act 1986.

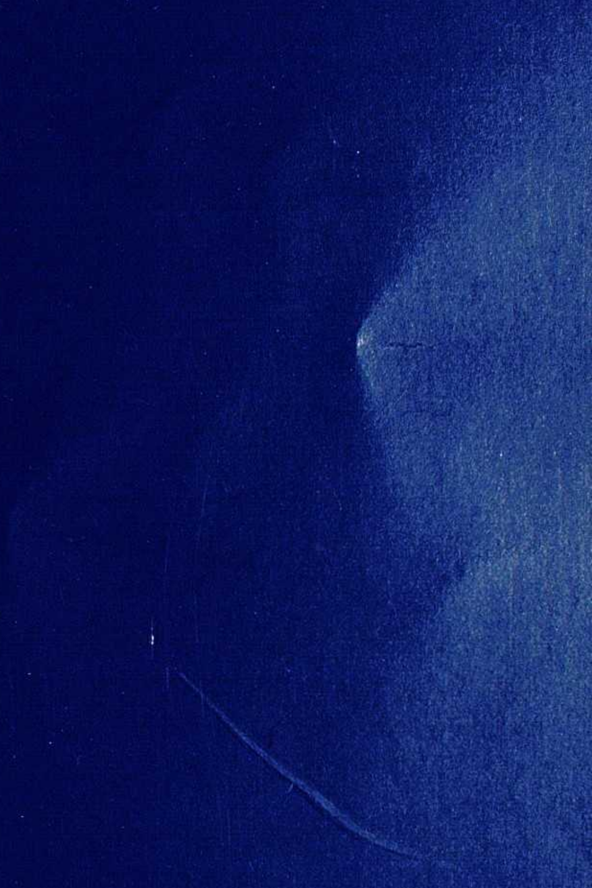
Personal equity plans (PEPs)
General and Single Company PEPs in the ordinary shares of the company are available for investors wishing to take advantage of preferential tax treatment in relation to their shareholdings. For further information contact The Plan Manager, National Westminster Bank Plc, NatWest PEP Office, 55 Mansell Street, London E1 8AN.
Telephone helpline 0171 895 5600.

Registrar and Transfer Office
The Royal Bank of Scotland plc, Registrar's Department, PO Box 82, Caxton House, Redcliffe Way, Bristol BS99 7NH.
Telephone 0117 930 6666.

Company Secretary and Registered Office
I A Hawtin; The Boots Company PLC, Nottingham NG2 3AA. Telephone 0115 950 6111.
The Boots Company PLC is registered in England and Wales (No. 27657).

Analysis of shareholders at 31st March 1997

Shareholding range	Number	%	Total holding	%
1-500	37,497	30.31	8,791,438	0.97
501-1,000	29,596	23.93	22,362,399	2.47
1,001-10,000	53,180	42.99	137,557,426	15.18
10,001-100,000	2,753	2.23	68,021,877	7.51
100,001-1,000,000	538	0.43	180,422,404	19.91
Over 1,000,000	136	0.11	488,915,420	53.96
	123,700	100.00	906,070,964	100.00



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